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WORKER RETRAINING

HEARING

BEFORE THE

SUBCOMMITTEE ON EMPLOYMENT OPPORTUNITIES

OF THE

COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 26

TO ESTABLISH A SYSTEM OF INDIVIDUAL TRAINING ACCOUNTS IN THE UNEMPLOYMENT TRUST FUND TO PROVIDE FOR TRAINING AND RELOCATING UNEMPLOYED INDIVIDUALS, TO AMEND THE INTERNAL REVENUE CODE OF 1954 TO PROVIDE THAT CERTAIN CONTRIBUTIONS TO SUCH ACCOUNTS SHALL BE DEDUCTIBLE FROM GROSS INCOME, AND FOR OTHER PURPOSES

AND

H.R. 1219

TO PROVIDE INCENTIVES FOR WORKER TRAINING THROUGH BOTH EMPLOYER AND INDIVIDUAL INITIATIVE AND TO REQUIRE THE SECRETARY OF LABOR TO STUDY THE FEASIBILITY AND COST OF A NATIONAL JOB BANK

HEARING HELD IN WASHINGTON, DC, JUNE 11, 1985

Serial No. 99-18

Printed for the use of the Committee on Education and Labor

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WORKER RETRAINING

TUESDAY, JUNE 11, 1985

House of Representatives,
Subcommittee on Employment Opportunities,
Committee on Education and Labor,
Washington, DC.

The subcommittee met, pursuant to call, at 9:45 a.m., in room 2261, Rayburn House Office Building, Hon. Matthew G. Martinez (chairman of the subcommittee) presiding.

Members present: Representatives Martinez, Hayes, Gunderson, and Henry.

Staff present: Eric P. Jensen, acting staff director; Genevieve Galbreath, chief clerk/staff assistant; Dr. Beth Buehlmann, Republican staff director for education.

[Text of H.R. 26 and H.R. 1219 follow:]

I

99th CONGRESS
1st Session

H. R. 26

To establish a system of individual training accounts in the Unemployment Trust Fund to provide for training and relocating unemployed individuals, to amend the Internal Revenue Code of 1954 to provide that certain contributions to such accounts shall be deductible from gross income, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

January 3, 1985

Mr. Durbin (for himself, Mr. Boehlert, Ms. Oakar, Mr. Dwyer of New Jersey, Mr. Gephardt, Mr. Oberstar, Mr. MacKay, Mr. Leland, Mr. Stokes, Mrs. Schneider, Mr. Penny, Mr. Borski, Mr. Weiss, Mr. Wolpe, Mr. Nowak, Mrs. Collins, Mr. McKinney, Mr. Vento, Mr. Rinaldo, Mr. Garcia, Mr. Bates, Ms. Snowe, Ms. Kaptur, Mr. Moody, Mr. Evans of Illinois, Mr. Clinger, Mr. Wortley, Mr. McKernan, Mr. Donnelly, Mr. Addabbo, Mr. Kolter, Mr. Mavroules, Mrs. Martin of Illinois, Mr. Towns, Mr. Weaver, Mr. Kostmayer, Mr. Conte, Mr. Volkmer, Mr. Gingrich, Mr. Edgar, Mr. Gejdenson, and Mr. Jeffords) introduced the following bill; which was referred jointly to the Committees on Education and Labor and Ways and Means

---

A BILL

To establish a system of individual training accounts in the Unemployment Trust Fund to provide for training and relocating unemployed individuals, to amend the Internal Revenue Code of 1954 to provide that certain contributions to such accounts shall be deductible from gross income, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "National Individual Training Account Act of 1985".

TITLE I—INDIVIDUAL TRAINING ACCOUNTS

ESTABLISHMENT OF NATIONAL INDIVIDUAL TRAINING ACCOUNT PROGRAM

SEC. 101. (a) There is hereby established the national individual training account program (hereinafter in this title referred to as the "program") to be administered by the Secretary of Labor and the Secretary of the Treasury in cooperation with the several States. The purpose of the program is to provide incentives to employers and employees to invest in a system of individual training accounts that shall be used to defray the costs of employee training in the event an employee becomes or is about to become involuntarily unemployed. It is the intent of the Congress that—

(1) the program be maintained as a voluntary system open to any employee and any employer of such employee who elect to participate in the program, and

(2) amounts on deposit in individual training accounts be invested in a manner that will yield a high return.

(b) The Secretary of Labor shall prescribe such regulations as may be necessary to administer the program in accordance with this Act.

(c)(1) The Secretary of Labor, on behalf of the United States, may enter into an agreement with any State, or with any agency administering the unemployment compensation laws of any State, under which such State or agency shall—

(A) issue and redeem, as an agent of the United States, vouchers to pay training and relocation expenses in accordance with this Act;

(B) accept contributions, as the agent of the United States, from employees and employers for deposit into individual training accounts and distribute any amount in any such account at such times as any distribution from such account is authorized under section 103(b);

(C) provide individual counseling or job and training referral services to any participant in the program; and

(D) cooperate with the Secretary of Labor, the Secretary of the Treasury, and any other officer of any agency of the Federal Government or any other State in carrying out the purposes of this Act.

(2) The Secretary of Labor shall provide such information and shall detail, on a reimbursable basis, such personnel

as may be requested by any State to assist such State to establish a State individual training account program which meets the requirements of section 3310 of the Internal Revenue Code of 1954 (as amended by section 202 of this Act).

DUTIES OF THE SECRETARY OF LABOR

SEC. 102. (a) The Secretary of Labor shall establish by regulations procedures for conducting the following activities:

(1) Acceptance and transfer of contributions for credit to any individual training account.

(2) Acceptance and review of any application for a voucher for training and relocation expenses filed by an individual who maintains a balance in an individual training account established for the benefit of such individual.

(3) Redemption of any voucher issued in accordance with section 103(d) for training or relocation expenses.

(4) Acceptance and review of any application for any distribution under section 103(b) from any account.

(5) Acceptance and review of any application relating to obtaining a certificate of eligibility for a training program.

(6) Review and transfer of any information collected or determination made by any State or person relating to any labor market, any training program,

and any other factor which such Secretary may take into account for the purpose of any determination under this Act.

(b)(1) The Secretary of Labor and the Secretary of the Treasury shall establish procedures, by regulations issued jointly by them, for conducting the following activities:

(A) The transfer to the Secretary of the Treasury of any contribution for deposit in the Unemployment Trust Fund to the credit of any individual training account and any related account.

(B) The allocation and distribution among the several States of any amount credited to the individual training account administration account.

(C) The allocation and distribution of any amount in any individual training account among any contributors to such account pursuant to section 103(b).

(D) The determination and collection of any excess amounts paid or distributed from any account established in the Unemployment Trust Fund under section 910 of the Social Security Act.

(2) The Secretary of Labor and the Secretary of the Treasury shall establish procedures, by regulations issued jointly by them, for making a determination that any amount in any individual training account is incapable of being distributed to any person entitled to such distribution.

DISTRIBUTIONS FROM INDIVIDUAL TRAINING ACCOUNTS

SEC. 103. (a)(1) For purposes of this title, the term "eligible individual" means any individual who is involuntarily unemployed through no fault of his own.

(2) Any eligible individual may withdraw from an individual training account established for the benefit of such individual—

(A) such amount as is necessary to pay training expenses incurred by such eligible individual in a training program determined by the Secretary of Labor, under section 104, to be an eligible training program; or

(B) an amount not to exceed $1,000 to pay relocation expenses approved by the Secretary of Labor or the authorized agent of such Secretary under section 105, with respect to such eligible individual.

(3) If the employer of any employee certifies to the Secretary of Labor or the authorized agent of such Secretary that such employee will be discharged permanently within the six-month period beginning on the date such certification is submitted to the Secretary or such agent, such employee shall be treated as an eligible individual as of such date if such employee would, but for the fact that such discharge has not yet occurred, be an eligible individual on such date.

(b)(1) In the case of an employee who—

(A) voluntarily ceases to be employed by his employer, or

(B) involuntarily ceases to be employed by such employer through the fault of such employee,

an amount equal to the sum of any amounts contributed by such employer to an account established for the benefit of such employee shall be distributed to the employer from such account in the manner provided in paragraph (5).

(2) In the case of an employee who retires from his employment by his employer or who dies while employed, any balance in the individual training account established for the benefit of such employee shall be distributed from such account among the contributors to the account (or the successor in interest to any such contributor) in the manner provided in paragraph (5). The employee's share of any balance in such account, in the case of an employee who has died before such distribution is made, shall be distributed to and included in the estate of such employee.

(3) If—

(A) any employee fails to contribute, for any calendar year, the minimum amount described in section 3310(a)(4) of the Internal Revenue Code of 1954 to an individual training account established for the benefit of such employee, or

(B) the employer of any employee referred to in subparagraph (A) fails to contribute, for any calendar year, at least such amount to such account,

an amount equal to the sum of the amounts contributed by such employer to such account shall be distributed to the employer from such account in the manner provided in paragraph (5).

(4) For purposes of this subsection, an employee who ceases to be employed because such employee has become disabled (within the meaning given to such term by section 72(m)(7) of the Internal Revenue Code of 1954) shall be treated as an individual who has retired.

(5) In the case of any distribution under this subsection of any amount from the balance in an individual training account, such amount shall be distributed among the contributors to such account (or the successors in interest to any such contributor) who are authorized to receive such distribution under any paragraph of this subsection. Any division of the amount in any such account being distributed among such contributors shall reflect—

(A) the amount of the net income of the account which is attributable to the contributions of each such contributor, and

(B) a proper allocation of any amounts previously distributed from such account for approved job training or relocation expenses among the contributions which were made before any such distribution (including the net income of the account which was attributable to such contributions and was earned before such distribution).

(6) For purposes of making any distribution under this subsection, the Secretary shall prescribe by regulations the manner in which any determination shall be made with respect to recognizing any person as the successor in interest to any employer in the case of any merger, acquisition, or liquidation affecting such employer.

(c) No distribution from an individual training account shall be made unless—

(1) application to the Secretary of Labor, through a State public employment office or other agency, is made by the person seeking such distribution, and

(2) such application is approved by the Secretary of Labor or an authorized agent of such Secretary in accordance with this title.

(d)(1) The Secretary of Labor shall establish a voucher system for making distributions from individual training accounts for training or relocation expenses.

(2) A voucher issued to an eligible individual under such system to pay training expenses or relocation expenses shall be redeemed by a public employment office (or such other

agency which the Secretary of Labor has approved under section 3304(a)(1) of the Internal Revenue Code of 1954) for an amount not to exceed—

(A) the face value of the voucher, or

(B) the actual cost of such expenses,

whichever is less, upon the presentation of such voucher to such office (or such agency) by the person who provided or is providing the service for which such expenses were incurred.

(3) No voucher issued to any eligible individual may be used to pay any expenses of any other individual.

(e)(1) In the case of any payment or distribution to any person from any individual training account (or the individual training account insurance account in the Unemployment Trust Fund) in excess of the amount to which such person is entitled under this Act, such excess amount shall be declared by the Secretary of the Treasury (in such manner as such Secretary shall prescribe by regulations) to be an amount due such Secretary by such person. The Secretary of the Treasury shall prescribe by regulations the manner in which any such excess amount shall be repaid by such person or otherwise collected from such person.

(2) Upon receipt of any repayment of any excess amount referred to in paragraph (1), the Secretary of the Treasury shall, subject to paragraph (3), credit the individual training

account of the individual for whose benefit such payment was made for the amount of such repayment.

(3) To the extent any payment or distribution referred to in paragraph (1) gave rise to a debit by the Secretary of the Treasury of the individual training account insurance account in the Unemployment Trust Fund pursuant to section 910(a)(3) of the Social Security Act, the Secretary of the Treasury shall credit such insurance account for so much of the amount of any repayment under this subsection as does not exceed the amount of any such debit.

(f)(1) If the redemption of any voucher issued under this section to pay the training or relocation expenses of any individual gives rise to a debit by the Secretary of the Treasury of the individual training account insurance account in the Unemployment Trust Fund pursuant to section 910(a)(3) of the Social Security Act, no additional voucher for such purposes shall be issued to such individual for any amount in excess of any balance in the individual training account established for the benefit of such individual at any time—

(A) after the date of the redemption of the voucher which gave rise to such debit, and

(B) before the end of the one-year period beginning on the date of the first contribution by such individual to the individual training account established for his benefit after such individual obtained employment following such training or relocation.

(2) Notwithstanding subsection (a), no unemployed individual shall be treated as an eligible individual before the end of the one-year period beginning on the date of the enactment of this Act. Any unemployed individual who, but for the preceding sentence, would be an eligible individual shall be treated during such one-year period as an employee who has voluntarily ceased to be employed by the employer of such individual.

ELIGIBLE TRAINING PROGRAMS; CERTIFICATION BY THE SECRETARY

SEC. 104. (a) In the case of an application under section 103(c) by an eligible individual for a voucher under section 103(d) for a withdrawal from an individual training account to pay the expenses of training in any trade or occupation, no such application shall be approved by the Secretary of Labor or any authorized agent of such Secretary unless the training program providing such training has been certified by the Secretary of Labor to be an eligible training program under this section with respect to such trade or occupation.

(b) A training program shall be certified by the Secretary of Labor as an eligible training program for purposes of section 103(a)(2) of this title and section 197(f)(2) of the Internal Revenue Code of 1954 if the Secretary determines to his satisfaction that—

(1) the quality of such training program will be adequate and reasonable for the trade or occupation for which such training is being or will be provided;

(2) subject to subsection (d), the trade or occupation for which such training is being provided under such program is one which is likely to lead to employment opportunities for the participant in such program;

(3) the facilities and equipment to be used are suitable for such program and the instructors in such program are qualified to provide training in such trade or occupation; and

(4) the training program meets such other requirements as the Secretary may establish under the program.

(c) The Secretary of Labor shall by regulation prescribe procedures governing the manner in which a program may be certified under subsection (b) as an eligible training program for purposes of this title. Such procedures shall provide for the following factors to be taken into consideration by the Secretary before making such certification:

(1) The projections by the Bureau of Labor Standards pursuant to section 462(a) of the Job Training Partnership Act with respect to future demand for the

occupation for which training is being provided under such training program.

(2) The training and education requirements for such occupation maintained by the Secretary of Labor pursuant to section 462(b) of such Act.

(3) Information collected and maintained by a State labor market information program referred to in section 125 of such Act concerning education and training supply support needs of the State within which such training program is situated.

(4) With respect to the quality of such training program, any determination relating to such program by the Secretary of Education, any State education agency, any State agency which regulates or accredits apprenticeship programs, any private industry organization, any agency or organization which receives Federal financial assistance under the Jobs Training Partnership Act, or any nationally recognized accrediting agency or association which the Secretary of Labor determines to be reliable authority as to the quality of training offered.

(5) Such other factors as the Secretary of Labor may determine to be relevant to such certification.

(d) No training program in low-wage industries where prior skill is typically not a prerequisite and labor turnover is high shall be approved by the Secretary as an eligible training program for purposes of subsection (a).

QUALIFIED RELOCATION EXPENSES; APPROVAL BY THE SECRETARY

SEC. 105. (a) In the case of an application under section 103(c) by an eligible individual for a voucher under section 103(d) for a withdrawal from an individual training account to pay relocation expenses incurred by such employee, no such application shall be approved by the Secretary of Labor or any authorized agent of such Secretary unless such Secretary or such agent determines that reimbursement from such account for such relocation is consistent with the purposes of this Act and the requirements of this section.

(b) Subject to the dollar limitation contained in section 103(a)(2)(B), the Secretary of Labor or any authorized agent of such Secretary may approve any application for a voucher to pay the costs incurred by an eligible individual for moving costs and such other reasonable costs incidental to the relocation of such employee which such Secretary or such agent may designate.

(c) The Secretary of Labor shall by regulation prescribe procedures governing the manner in which an eligible individual may be certified as eligible for relocation expenses under this section.

(d)(1) No application for payment of relocation expenses of any eligible individual shall be approved by the Secretary of Labor or any authorized agent of such Secretary for the relocation of such individual outside the State in which such individual was last employed before the end of the thirteen-week period beginning on the date such individual was last employed.

(2) No application described in paragraph (1) shall be approved after the end of the thirteen-week period referred to in such paragraph unless the public employment service of the State in which an eligible individual was last employed (or such other agency which the Secretary of Labor has approved under section 3304(a)(1) of the Internal Revenue Code of 1954) determines that no employment opportunity exists within such State in any trade or occupation of such individual.

(3) In the case of an eligible individual who was last employed in one State and during such last employment resided in another State—

(A) paragraph (1) shall be applied so as to allow the payment of relocation expenses for the relocation of such individual within either such State during the 13-week period referred to in such paragraph, and

(B) the determination under paragraph (2) shall be made with respect to employment opportunities within both such States before an application may be approved for the payment of relocation expenses for the relocation of such individual to any place outside of both such States.

INDIVIDUAL TRAINING ACCOUNTS ESTABLISHED AS SEPARATE BOOK ACCOUNTS IN UNEMPLOYMENT TRUST FUND

SEC. 106. (a) Title IX of the Social Security Act (relating to miscellaneous provisions relating to employment security) is amended by inserting at the end thereof the following new section:

"INDIVIDUAL TRAINING AND RELATED ACCOUNTS ESTABLISHED

"SEC. 910. (a)(1) There shall be established in the Unemployment Trust Fund an individual training account for the benefit of each individual who elects to participate in a State individual training account program approved by the Secretary of Labor in accordance with section 3310 of the Internal Revenue Code of 1954. No more than one such account shall be established for the benefit of any individual. Each such account shall be maintained as a separate book account in the manner provided in section 904(e).

"(2) Any amount received by the Secretary of the Treasury as a contribution to an individual training account shall be deposited in the Fund and, except as provided in subsections (b)(2) and (c)(2), credited to such account. To the extent the credit of any such amount to such account would cause the balance in such account to exceed $4,000, the amount of such contribution which would create such excess shall be promptly returned to the contributor of such amount.

"(3) Upon receipt of notification from the Secretary of Labor of any redemption by any State of any voucher for training or relocation expenses of an individual for whose benefit an individual training account has been established, the Secretary of the Treasury shall—

"(A) debit the individual training account of such individual for such amount, and

"(B) credit the State individual training account for such State for such amount.

If the amount of any such redemption exceeds the balance maintained in such account and does not exceed $4,000, the Secretary of the Treasury shall debit the individual training account insurance account for such excess amount.

"(4) Upon making a determination in accordance with procedures established pursuant to section 102(b)(2) of the National Individual Training Account Act of 1985 that any amount credited to any individual training account is incapable of being distributed to any person entitled to such distribution under section 103(b) of such Act, the Secretary of the Treasury shall—

"(A) transfer such amount from the Fund to the general fund of the Treasury, and

"(B) debit the account for such amount.

"(b)(1) There is hereby established in the Unemployment Trust Fund an individual training account administration account. Such account shall be maintained as a separate book account in the manner provided in section 904(e).

"(2) Of any amount received by the Secretary of the Treasury as a contribution to an individual training account, percent of such amount shall be credited to the individual training account administration account.

"(3) Upon receipt of notice from the Secretary of Labor of any amount determined (in accordance with regulations promulgated pursuant to section 102(b)(2) of the National Individual Training Account Act of 1985) to be due any State for assisting such State to administer the individual training account program in such State, the Secretary of the Treasury shall—

"(A) debit the individual training account administration account for such amount, and

"(B) credit the State individual training account for such State for such amount.

"(c)(1) There is hereby established in the Unemployment Trust Fund an individual training account insurance account. Such account shall be maintained as a separate book account in the manner provided in section 904(e).

"(2) Before the end of each fiscal year, the Secretary of the Treasury shall—

"(A) debit each individual training account for $25, and

"(B) credit the individual training account insurance account for such amount.

"(d)(1) There shall be established in the Unemployment Trust Fund a State individual training account for each State which participates in the national individual training account program. Each such account shall be maintained as a separate book account in the manner provided in section 904(e).

"(2) At least once during each quarter of each fiscal year (or upon the receipt of a request for payment from the Governor or other chief executive of any State), the Secretary of the Treasury shall—

"(A) out of any amount on deposit in the Fund, pay to each State for which a State account has been established under paragraph (1) (or, in the case of any such request, such State) an amount equal to the balance in the State account for such State, and

"(B) debit such State account for such amount.".

(b) Subsection (e) of section 904 of the Social Security Act is amended by striking out "and the railroad unemployment insurance administration fund" and inserting in lieu thereof "the railroad unemployment insurance administration fund, the individual training account administration account, the individual training insurance account, each individual training account, and each State individual training account".

TITLE II—AMENDMENTS TO THE INTERNAL REVENUE CODE OF 1954 RELATING TO INDIVIDUAL TRAINING ACCOUNTS

SEC. 201. APPROVED STATE INDIVIDUAL TRAINING ACCOUNT PROGRAM REQUIRED FOR APPROVAL OF STATE UNEMPLOYMENT COMPENSATION LAWS.

(a) IN GENERAL.—Subsection (a) of section 3304 of the Internal Revenue Code of 1954 (relating to approval of State laws) is amended by redesignating paragraph (18) as paragraph (19) and inserting after paragraph (17) the following new paragraph:

"(18) a State individual training account program which has been approved by the Secretary of Labor under section 3310 is in effect in such State; and".

(b) CONFORMING AMENDMENT.—Paragraph (17) of such subsection (a) of such section 3304 is amended by striking out "and" at the end thereof.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to certifications of State laws for 1986 and subsequent years.

SEC. 202. STATE INDIVIDUAL TRAINING ACCOUNT PROGRAM REQUIREMENTS.

(a) IN GENERAL.—Chapter 23 of the Internal Revenue Code of 1954 (relating to the Federal Unemployment Tax Act) is amended by redesignating sections 3310 and 3311 as sections 3311 and 3312, respectively, and by inserting after section 3309 the following new section:

"SEC. 3310. STATE INDIVIDUAL TRAINING ACCOUNT PROGRAM REQUIREMENTS.

"The Secretary of Labor shall approve the individual training account program of any State which he finds meets the following requirements:

"(1) The public employment agency of such State is authorized and required under the law of such State to act as the agent of the Secretary of Labor with respect to the administration of the National Individual Training Account Act of 1985 to the extent required by such Act and any regulation promulgated by such Secretary pursuant to such Act.

"(2) All public employment offices (or such other agency which the Secretary of Labor has approved under section 3304(a)(1)) in such State shall accept money for deposit in an individual training account.

"(3) Participation in such program shall be voluntary and open to any employee covered under the unemployment compensation laws of such State and the employer of such employee.

"(4) An individual training account shall be established under such program only if the employee for whose benefit such account is established and the employer of such employee each agree to contribute to such account, in each calendar year during which such account is maintained, a minimum of—

"(A) $250, or

"(B) an amount equal to 0.8 percent of the wages paid by such employer to such employee during such calendar year,

whichever is less, subject to the limitation contained in section 910(a)(2) of the Social Security Act with respect to accounts which have a balance of $4,000 or more.

"(5) Any voucher for training or relocation expenses presented to any public employment office (or such other agency which the Secretary of Labor has approved under section 3304(a)(1)) in such State by the person who provided the service for which such expenses were incurred shall be paid by such State subject to reimbursement from the State individual training account for such State in the Unemployment Trust

Fund in accordance with section 910(d)(2) of the Social Security Act.

"(6) No application by any individual for a voucher for training or relocation expenses shall be accepted unless such individual has received individual counseling from any public employment office (or such other agency which the Secretary of Labor has approved under section 3304(a)(1)) with respect to seeking employment.

"(7) Such State shall provide such cooperation to other States as may be necessary to administer the National Individual Training Account Act of 1985."

(b) TECHNICAL AND CONFORMING AMENDMENT.—Subsection (j) of section 3305 of such Code is amended by striking out "section 3310" and inserting in lieu thereof "section 3311".

(c) CLERICAL AMENDMENT.—The table of sections for such chapter 23 is amended by redesignating the items relating to sections 3310 and 3311 as sections 3311 and 3312, respectively, and by inserting after the item relating to section 3309 the following new item:

"Sec. 3310. State individual training account programs."

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 203. DEDUCTION ALLOWED FOR CONTRIBUTION TO INDIVIDUAL TRAINING ACCOUNT.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to itemized deductions for individuals and corporations) is amended by adding at the end thereof the following new section:

"SEC. 197. CONTRIBUTIONS TO INDIVIDUAL TRAINING ACCOUNT.

"(a) DEDUCTION ALLOWED.—

"(1) EMPLOYEE.—In the case of an employee, there shall be allowed as a deduction an amount equal to the sum of the contributions paid or incurred by the taxpayer in the calendar year in which the taxable year of the taxpayer begins to an individual training account established for the benefit of such employee in the Unemployment Trust Fund in accordance with section 910(a) of the Social Security Act.

"(2) EMPLOYER.—In the case of an employer, there shall be allowed as a deduction an amount equal to 125 percent of the sum of the contributions paid or incurred by the taxpayer in the calendar year in which the taxable year of the taxpayer begins to an individual training account established for the benefit of any employee of such employer in the Unemployment Trust Fund in accordance with section 910(a) of the Social Security Act.

"(b) LIMITATION ON CONTRIBUTION IN EXCESS OF MAXIMUM ACCOUNT BALANCE.—No deduction shall be allowed under subsection (a)(1) or subsection (a)(2) for any contribution to an individual training account to the extent such contribution would cause the balance in such account to exceed $4,000.

"(c) SPECIAL RULES.—

"(1) AMOUNTS INCLUDED IN CONTRIBUTION.—The amount of any contribution for which a deduction is allowable under subsection (a) includes—

"(A) the amount credited to the individual training account administration account in accordance with section 910(b)(2) of the Social Security Act, and

"(B) the amount credited to the individual training account insurance account in accordance with section 910(c)(2) of such Act,

with respect to such contribution.

"(2) DISALLOWANCE OF ANY OTHER DEDUCTION FOR CONTRIBUTION TO INDIVIDUAL TRAINING ACCOUNT.—No deduction otherwise allowable under any other provision of this title shall be allowed with respect to contributions by an employer to an individual training account.

"(d) CARRYOVER OF UNUSED DEDUCTIONS FOR EMPLOYERS.—If the sum of any amounts allowable as a deduction under subsection (a)(2) to any employer for any taxable year exceeds the taxable income of such employer for such taxable year (hereinafter referred to in this subsection as the 'unused deduction year'), such excess shall be—

"(1) a training account deduction carryback to each of the 3 taxable years preceding such unused deduction year, and

"(2) a training account deduction carryforward to each of the 3 taxable years following such unused deduction year.

The entire amount of the unused deduction for an unused deduction year shall be carried to the earliest of the 6 taxable years to which (by reason of the preceding sentence) such unused deduction may be carried and then to each of the other 5 taxable years to the extent that such unused deduction exceeds taxable income for a preceding taxable year to which such unused deduction may be carried. If any portion of such unused deduction is a carryback to a taxable year beginning before the effective date of this section, this section shall be deemed to have been in effect for such taxable year for the purpose of allowing such carryback as a deduction under this section.

"(e) TAX TREATMENT OF DISTRIBUTIONS.—

"(1) IN GENERAL.—Any amount paid or distributed out of an individual training account shall be included in gross income of the payee or distributee for the taxable year in which the payment or distribution is received to the extent that such amount represents the return of contributions by such payee or distributee to such account for which a deduction was allowed under subsection (a), including interest accrued in such account and attributable to any such contribution.

"(2) DISTRIBUTION USED TO PAY TRAINING OR RELOCATION EXPENSES.—Paragraph (1) shall not apply to any payment or distribution out of an individual training account to the extent such payment or distribution is used to pay training or relocation expenses approved by the Secretary of Labor (or an authorized agent of such Secretary) with respect to the employee for whose benefit such account has been established.

"(3) EXCESS CONTRIBUTIONS RETURNED BEFORE DUE DATE OF RETURN.—Paragraph (1) shall not apply to the distribution of any contribution paid by any person in any calendar year to an individual training account to the extent that such contribution exceeds the amount of the limitation contained in subsection (b) with respect to any contribution to such account if—

"(A) such distribution is received on or before the day prescribed by law (including extensions of time) for filing such person's return of income for the taxable year which began in such calendar year,

"(B) no deduction is allowed under subsection (a) with respect to such excess contribution, and

"(C) such distribution is accompanied by the amount of net income attributable to such excess contribution.

Any net income described in subparagraph (C) shall be included in the gross income of the person for the taxable year which began in the calendar year in which such excess contribution was made.

"(4) DENIAL OF DOUBLE BENEFIT.—No deduction shall be allowed under section 217(a) for costs incurred by any employee described in paragraph (2) of this section to the extent that such costs were paid by such employee with the proceeds of any payment or distribution to which such paragraph (2) applies.

"(f) DEFINITIONS.—For purposes of this section—

"(1) TRAINING EXPENSES DEFINED.—The term 'training expenses' means—

"(A) tuition and fees required for the enrollment or attendance of an employee in an eligible training program, and

"(B) books, supplies, or equipment required for enrollment in such program and supplied through such program.

"(2) ELIGIBLE TRAINING PROGRAM DEFINED.—The term 'eligible training program' means a training program approved by the Secretary of Labor under section 104(b) of the National Individual Training Account Act of 1985.

"(3) RELOCATION EXPENSES DEFINED.—The term 'relocation expenses' means any expense described in section 217(b) which has been approved by the Secretary of Labor (or an authorized agent of such Secretary) under section 105(b) of the National Individual Training Account Act of 1985.

"(4) EMPLOYER DEFINED.—The term 'employer' has the meaning given to such term by section 3306(a).

"(5) EMPLOYEE DEFINED.—The term 'employee' has the meaning given to such term by section 3306(i)."

(b) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1 of such Code is amended by inserting after the item relating to section 196 the following new item:

"Sec. 197. Contribution to individual training account."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to contributions to individual training accounts made after December 31, 1984, in taxable years ending after such date.

SEC. 204. NO REDUCTION IN FEDERAL UNEMPLOYMENT TAX IN CASE OF LARGE EMPLOYER WHO REFUSES TO PARTICIPATE IN PROGRAM.

(a) IN GENERAL.—Chapter 23 of the Internal Revenue Code of 1954 (relating to the Federal Unemployment Tax Act) is amended by inserting after section 3303 the following new section:

"SEC. 3303A. NO REDUCTION IN TAX IN CASE OF LARGE EMPLOYER WHO REFUSES TO PARTICIPATE IN NATIONAL INDIVIDUAL TRAINING ACCOUNT PROGRAM.

"(a) IN GENERAL.—In the case of any large employer which refuses to enter into an agreement described in section 3310(4) at the request of any employee in any calendar year with respect to which such employer would otherwise be subject to the tax imposed under section 3301 at the rate described in paragraph (2) of such subsection, such employer shall be subject to such tax with respect to such calendar year at the rate described in paragraph (1) of such section.

"(b) LARGE EMPLOYER DEFINED.—For purposes of subsection (a), the term 'large employer' means any employer (within the meaning given such term by section 3306(a)) which during the calendar year employed an average of not less than 25 employees."

(b) CLERICAL AMENDMENT.—The table of sections for such chapter 23 is amended by inserting after the item relating to section 3303 the following new item:

"Sec. 3303A. No reduction in tax in case of large employer who refuses to participate in national individual training account program."

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply to calendar years beginning after December 31, 1986.

(d) APPROPRIATION OF AMOUNTS ATTRIBUTABLE TO THE OPERATION OF SECTION 3303A(a) OF SUCH CODE.—For the expense of administering the Federal-State employment service, there is hereby appropriated to the Secretary of Labor for each fiscal year ending after January 1, 1986, an amount determined by the Secretary of the Treasury to be equivalent to   percent of the amounts received in the general fund in the Treasury which are attributable to the operation of section 3303A(a) of the Federal Unemployment Tax Act (relating to denial of reduction in tax rate in case of large employer who refuses to participate in the national individual training account program).

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99TH CONGRESS
1ST SESSION

H. R. 1219

To provide incentives for worker training through both employer and individual initiative and to require the Secretary of Labor to study the feasibility and cost of a national job bank.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 21, 1985

Mrs. JOHNSON (for herself, Mr. CLINGER, Ms. KAPTUR, Mr. FORD of Tennessee, Mr. BEREUTER, Mr. BLAZ, Mrs. COLLINS, Mr. CONTE, Mr. COUGHLIN, Mr. DEWINE, Mr. EMERSON, Mr. FAUNTROY, Mr. FIELDS, Mr. FISH, Mr. GARCIA, Mr. HORTON, Mr. LAGOMARSINO, Mr. LEACH of Iowa, Mr. McDADE, Mrs. MARTIN of Illinois, Mr. McKERNAN, Mr. McKINNEY, Mr. MICHEL, Mr. MOODY, Mr. MORRISON of Washington, Mr. NIELSON of Utah, Ms. OAKAR, Mr. RIDGE, Mr. ROSE, Mr. ROWLAND of Connecticut, Ms. SNOWE, Mr. STOKES, and Mr. WEBER) introduced the following bill; which was referred jointly to the Committees on Education and Labor and Ways and Means

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A BILL

To provide incentives for worker training through both employer and individual initiative and to require the Secretary of Labor to study the feasibility and cost of a national job bank.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "National Training Incentives Act of 1985".

CONGRESSIONAL DECLARATION OF POLICY

SEC. 2. The Congress declares that it is the continuing policy and responsibility of the Federal Government to foster cooperation between employers and employees in order to promote training programs which will assist employees, should they be displaced from the work force, to be trained for a trade or occupation for which employment opportunities exist and are likely to continue to exist in the future.

CONGRESSIONAL FINDINGS

SEC. 3. The Congress finds that—

(1) existing employment and training programs are directed primarily to economically and culturally disadvantaged individuals and do not address the needs of vast numbers of individuals who are currently employed but who will need to be trained for a trade or occupation other than the trade or occupation in which they are currently employed if they are to remain employed throughout their working lifetime;

(2) the continued security and economic vitality of the Nation requires the maintenance of a skilled work force, now and in the future, and a continuing increase in the productivity of such work force;

(3) the Federal job training programs currently in effect are subject to and dependent upon annual congressional appropriation of funds and cannot adequately provide in a reliable and timely manner all of the skills training opportunities which will be required to meet the future demands of the economy;

(4) changing international trade patterns and the consequences of strong organized foreign competition with United States goods and services have compelled many domestic businesses to diversify and to close down primary industrial production operations and facilities which, in turn, has displaced large numbers of workers previously employed in such operations; and

(5) the unemployment compensation system, currently in disarray due to a prolonged economic recession, is becoming an increasingly unreliable means for easing the hardships imposed on unemployed workers, especially those who have experienced prolonged unemployment due to a general decline in the industry in which they were employed.

TITLE I—AMENDMENTS TO INTERNAL REVENUE CODE OF 1954 RELATING TO EMPLOYEE TRAINING

SEC. 101. CREDIT FOR INCREASING EMPLOYEE TRAINING EXPENSES.

(a) CREDIT ALLOWED.—Subsection (b) of section 38 of the Internal Revenue Code of 1954 (relating to general business credits) is amended—

(1) by adding at the end thereof the following new paragraph:

"(5) the employee training credit determined under section 42.",

(2) by striking out "plus" at the end of paragraph (3), and

(3) by striking out the period at the end of paragraph (4) and inserting in lieu thereof ", plus".

(b) DETERMINATION OF AMOUNT.—Subpart D of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1954 (relating to credits allowable against tax) is amended by adding at the end thereof the following new section:

"SEC. 42. EMPLOYEE TRAINING CREDIT.

"(a) AMOUNT OF EMPLOYEE TRAINING CREDIT.—For purposes of section 38, the amount of the employee training credit determined under this section for any taxable year shall be an amount equal to 25 percent of the excess, if any, of—

"(1) the qualified training expenses of the taxpayer for such taxable year, over

"(2) the base period training expenses of such taxpayer.

"(b) QUALIFIED TRAINING EXPENSES DEFINED.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified training expenses' means the aggregate amount of expenses paid or incurred by the taxpayer during the taxable year in connection with the training of employees under approved training programs.

"(2) APPROVED TRAINING PROGRAMS.—The term 'approved training program' means—

"(A) any apprenticeship program registered with or approved by any Federal or State agency or department,

"(B) any employer-designed or employer-sponsored program which meets such minimum requirements with respect to supervised on-the-job experience and classroom instruction as the Secretary of Labor shall prescribe by regulations, "(C) any cooperative education (within the meaning given to such term by section 521(7) of the Carl D. Perkins Vocational Education Act),

"(D) any training program designated by the Secretary of Labor which is carried out under the supervision of an institution of higher education (within the meaning given to such term by section 1201(a) of the Higher Education Act of 1965), or

"(E) any other program for improving job skills directly related to employment which the Secretary of Labor may approve under regulations prescribed by such Secretary.

"(c) BASE PERIOD TRAINING EXPENSES DEFINED.—For purposes of this section—

"(1) IN GENERAL.—The term 'base period training expenses' means the average of the qualified training expenses for each year in the base period.

"(2) BASE PERIOD DEFINED.—

"(A) IN GENERAL.—The term 'base period' means the 5 taxable years of the taxpayer immediately preceding the taxable year for which the determination is being made (hereinafter in this subsection referred to as the 'determination year').

"(B) TRANSITIONAL RULES.—Subparagraph (A) shall be applied—

"(i) by substituting 'first taxable year' for '5 taxable years' in the case of the first determination year beginning after December 31, 1984,

"(ii) by substituting '2' for '5' in the case of the second determination year beginning after December 31, 1984,

"(iii) by substituting '3' for '5' in the case of the third determination year beginning after December 31, 1984, and

"(iv) by substituting '4' for '5' in the case of the fourth determination year beginning after December 31, 1984.

"(3) MINIMUM BASE PERIOD TRAINING EXPENSES.—In the case of any determination year of the taxpayer for which the qualified training expenses exceed 200 percent of the base period training expenses, subsection (a)(2) shall be applied by substituting '50 percent of such qualified training expenses' for 'the base period training expenses'.

"(d) SPECIAL RULES.—For purposes of this section—

"(1) AGGREGATION OF QUALIFIED TRAINING EXPENSES.—

"(A) CONTROLLED GROUP OF CORPORATIONS.—In determining the amount of the credit under this section—

"(i) all members of the same controlled group of corporations shall be treated as a single taxpayer, and

"(ii) the credit (if any) allowable by this section to each such member shall be its proportionate share of the increase in qualified training expenses giving rise to the credit.

"(B) COMMON CONTROL.—Under regulations prescribed by the Secretary, in determining the amount of the credit under this section—

"(i) all trades or businesses (whether or not incorporated) which are under common control shall be treated as a single taxpayer, and

"(ii) the credit (if any) allowable by this section to each such trade or business shall be its proportionate share of the increase in qualified training expenses giving rise to the credit.

The regulations prescribed under this subparagraph shall be based on principles similar to the principles which apply in the case of subparagraph (A).

"(2) ALLOCATIONS.—

"(A) PASSTHROUGH IN THE CASE OF ESTATES AND TRUSTS.—Under regulations prescribed by the Secretary, rules similar to the rules of subsection (d) of section 52 shall apply.

"(B) ALLOCATION IN THE CASE OF PARTNERSHIPS.—In the case of partnerships, the credit shall be allocated among partners under regulations prescribed by the Secretary.

"(3) ADJUSTMENTS FOR CERTAIN ACQUISITIONS, ETC.—Under regulations prescribed by the Secretary—

"(A) ACQUISITIONS.—If, after December 31, 1984, a taxpayer acquires the major portion of a trade or business of another person (hereinafter in this paragraph referred to as the 'predecessor') or the major portion of a separate unit of a trade or business of a predecessor, then, for purposes of applying this section for any taxable year ending after such acquisition, the amount of qualified training expenses paid or incurred by the taxpayer during periods before such acquisition shall be increased by so much of such expenses paid or incurred by the predecessor with respect to the acquired trade or business as is attributable to the portion of such trade or business or separate unit acquired by the taxpayer.

"(B) DISPOSITIONS.—If, after December 31, 1984—

"(i) a taxpayer disposes of the major portion of any trade or business or the major portion of a separate unit of a trade or business in a transaction to which subparagraph (A) applies, and

"(ii) the taxpayer furnished the acquiring person such information as is necessary for the application of subparagraph (A),

then, for purposes of applying this section for any taxable year ending after such disposition, the amount of qualified training expenses paid or incurred by the taxpayer during periods before such disposition shall be decreased by so much of such expenses as is attributable to the portion of such trade or business or separate unit disposed of by the taxpayer.

"(4) SHORT TAXABLE YEARS.—In the case of any short taxable year, qualified training expenses shall be annualized in such circumstances and under such methods as the Secretary may prescribe by regulations.

"(5) CONTROLLED GROUP OF CORPORATIONS DEFINED.—The term 'controlled group of corporations' has the same meaning given to such term by section 1563(a), except that—

"(A) 'more than 50 percent' shall be substituted for 'at least 80 percent' each place it appears in section 1563(a)(1), and

"(B) the determination shall be made without regard to subsections (a)(4) and (e)(3)(C) of section 1563.

"(e) ADDITIONAL BENEFIT.—The credit allowable under this section with respect to qualified training expenses of the taxpayer shall be in addition to any deduction or credit allowed the taxpayer under any other provision of this chapter with respect to such expenses."

(c) CLERICAL AMENDMENT.—The table of sections for subpart A of part IV of subchapter A of chapter 1 of such Code is amended by adding at the end thereof the following new item:

"Sec. 42. Employee training credit."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1984.

SECTION 102. NO ADDITIONAL TAX ON EARLY WITHDRAWALS FROM AN INDIVIDUAL RETIREMENT ACCOUNT BY DISPLACED WORKERS.

(a) IN GENERAL.—Subsection (f) of section 408 of the Internal Revenue Code of 1954 (relating to additional tax on certain amounts included in gross income before age 59½) is amended by inserting at the end thereof the following new paragraph:

"(4) Paragraph (1) shall not apply to an amount paid or distributed on behalf of a taxpayer who is a displaced worker to the extent—

"(A) the amount paid or distributed does not exceed the qualified amount,

"(B) the payment or distribution is used to pay training expenses incurred by the taxpayer, and

"(C) the payment or distribution is made in the manner required under subsection (o)(4).".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to any payment or distribution from an individual retirement account or an individual retirement annuity which is included in gross income for any taxable year beginning after December 31, 1984.

SEC. 103. SPECIAL RULES FOR EARLY WITHDRAWALS FROM INDIVIDUAL RETIREMENT ACCOUNTS BY DISPLACED WORKERS.

(a) In General.—Such section 408 of such Code (relating to individual retirement accounts) is amended by redesignating subsection (o) as subsection (p) and by inserting after subsection (n) the following new subsection:

"(o) Distributions Before Age 59½ for Training Displaced Workers.—For purposes of subsection (f)(4)—

"(1) Displaced worker defined.—The term 'displaced worker' means any individual who—

"(A) has at least 20 quarters of coverage under title II of the Social Security Act on the date such individual applies for certification as a displaced worker under section 201(a) of the National Training Incentives Act of 1985;

"(B) has, within the 1-year period ending on such date, received counseling relating to seeking employment from any public employment office of any State (or such other agency as the Secretary of Labor has approved under section 3304(a)(1)); and

"(C)(i) is, on such date, receiving (or is eligible to receive) regular compensation under the unemployment compensation law of such State, "(ii) has, on or before such date, exhausted all right to receive regular compensation under the unemployment compensation law of such State in the most recent benefit year of such individual,

"(iii) has, on or before such date, become unemployed (or has received notice from his or her employer that his or her employment with such employer will be terminated within 6 months of such notice) as a result of the permanent closure of the plant or facility of such employer where such individual is or was employed, or

"(iv) has, as of such date, been unemployed for 6 months or more and has limited opportunity for employment (for any reason, including the age of such individual) in the same or any similar trade or occupation in which such individual was employed within a reasonable commuting distance from the principal residence of such individual.

"(2) TRAINING EXPENSES DEFINED.—The term 'training expenses' means any expense for—

"(A) tuition or fees required for the enrollment of or attendance by the taxpayer in any program which the Secretary of Labor has determined to be an eligible training program under section 203 of the National Training Incentives Act of 1985, and

"(B) the purchase or use of any books, supplies, or equipment which are directly related to participation by the taxpayer in such training program and are supplied through such program.

"(3) QUALIFIED AMOUNT DEFINED.—The term 'qualified amount' means, with respect to any taxable year of any displaced worker—

"(A) $4,000 increased by an amount equal to $4,000 multiplied by the cost-of-living adjustment (as defined in section 1(f)(3)) for the calendar year in which the taxable year begins, minus

"(B) the aggregate of the amounts distributed in each of the 4 taxable years immediately preceding such taxable year from any individual retirement account or an individual retirement annuity to pay any training expenses of the individual for whose benefit such account or annuity was established.

If the amount determined under subparagraph (A) is not a multiple of $10, such amount shall be rounded to the next nearest multiple of $10 (or if such amount is a multiple of $5, such amount shall be increased to the next highest multiple of $10).

"(4) Manner of distribution.—No payment or distribution from an individual retirement account or an individual retirement annuity shall qualify for the exemption from additional taxation under subsection (f)(4) unless such payment or distribution—

"(A) was initiated (upon application by the taxpayer for whose benefit such account or annuity was established) through the use of a voucher issued in accordance with section 202 of the National Training Incentives Act of 1985 by the trustee of such account or the insurance company which issued such annuity, and

"(B) was made by such trustee or company by redeeming the voucher upon presentation by the person who provided the training for which the training expenses were incurred by the taxpayer."

(b) Effective Date.—The amendment made by subsection (a) shall apply to any payment or distribution from an individual retirement account or an individual retirement annuity which is included in gross income for any taxable year beginning after December 31, 1984.

TITLE II—WITHDRAWALS FROM INDIVIDUAL RETIREMENT ACCOUNTS AND ANNUITIES FOR JOB TRAINING FOR DISPLACED WORKERS

CERTIFICATION OF UNEMPLOYED INDIVIDUAL AS DISPLACED WORKER

SEC. 201. (a) Any individual who becomes a displaced worker may apply to the Secretary of Labor (hereinafter in this title referred to as the "Secretary") through any local office of the United States Employment Service or, to the extent authorized by the law of any State, any public employment office of such State (or such other agency as the Secretary has approved under section 3304(a)(1) of the Federal Unemployment Tax Act) for a certificate (in such form as the Secretary shall by regulation prescribe) certifying that such individual is a displaced worker.

(b) For purposes of this title, the term "displaced worker" means any individual who—

(1) has, as of the date such individual applies for certification as a displaced worker under subsection (a), at least twenty quarters of coverage under title II of the Social Security Act;

(2) has, within the one-year period ending on such date, received counseling relating to seeking employment from any public employment office of any State

(or such other agency as the Secretary has approved under section 3304(a)(1) of the Federal Unemployment Tax Act); and

(3)(A) is, on such date, receiving (or is eligible to receive) regular compensation under the unemployment compensation law of such State,

(B) has, on or before such date, exhausted all right to receive regular compensation under the unemployment compensation law of such State in the most recent benefit year of such individual,

(C) has, on or before such date, become unemployed (or has received notice from his or her employer that his or her employment with such employer will be terminated within six months of such notice) as a result of the permanent closure of the plant or facility of such employer where such individual is or was employed, or

(D) has, as of such date, been unemployed for six months or more and has limited opportunity for employment (for any reason, including the age of such individual) within a reasonable commuting distance from the principal residence of such individual in the same or any similar trade or occupation in which such individual was employed.

WITHDRAWALS FROM INDIVIDUAL RETIREMENT ACCOUNTS AND ANNUITIES TO PAY TRAINING EXPENSES

SEC. 202. (a)(1) Any displaced worker may withdraw, in the manner provided in subsection (b), an amount not to exceed the qualified amount from any individual retirement account or any individual retirement annuity established for the benefit of such worker to pay any training expenses incurred by such individual for training in a new trade or occupation of such individual.

(2) For purposes of this subsection, the term "qualified amount" means, with respect to any taxable year of any displaced worker—

(A) $4,000 increased by the cost-of-living adjustment (as defined in section 1(f)(3) of the Internal Revenue Code of 1954) for the calendar year in which the taxable year begins, minus

(B) the aggregate of the amounts distributed in each of the four taxable years immediately preceding such taxable year from any individual retirement account or an individual retirement annuity to pay any training expenses of the individual for whose benefit such account or annuity was established.

If the amount determined under subparagraph (A) is not a multiple of $10, such amount shall be rounded to the next nearest multiple of $10 (or if such amount is a multiple of $5, such amount shall be increased to the next highest multiple of $10).

(b)(1) Any withdrawal from an individual retirement account or individual retirement annuity for payment of training expenses pursuant to this section may be made only through the use of a voucher issued by the trustee of the account (or the custodian in the case of a custodian treated as a trustee under section 408(h) of the Internal Revenue Code of 1954) or the insurance company which is a party to the annuity contract relating to such individual retirement annuity.

(2) A voucher may be issued by a trustee or company under paragraph (1) only upon presentation to such trustee or company by the displaced worker for whose benefit such account or annuity was established of—

(A) a certificate issued to such worker in accordance with section 201, and

(B) an invoice or statement to such trustee or company from a qualified institution containing—

(i) evidence that such worker has enrolled in an eligible training program in such institution,

(ii) the amount which such worker has become obligated to pay for such training by virtue of such enrollment, and

(iii) such other information as the Secretary or such trustee or company may require.

(3) Any voucher issued pursuant to this section by the trustee of an individual retirement account or the insurance company which is a party to an annuity contract relating to an individual retirement annuity may be delivered to the displaced worker for whose benefit such account or annuity was established but shall be payable only to the institution referred to in paragraph (2)(B). Such trustee or company shall redeem the voucher upon presentment by such institution.

(4) In the case of any redemption by any trustee or insurance company under paragraph (3) of a voucher issued for the benefit of a displaced worker for an amount in excess of the amount—

(A) to which such displaced worker was entitled under this section, or

(B) of the actual cost of the training expenses provided by the institution referred to in paragraph (2)(B) to such worker,

such excess amount shall be repaid by such displaced worker or such institution, as the case may be, to such trustee or insurance company and credited to the individual retirement account or the individual retirement annuity from which such excess amount was distributed.

(c)(1) Notwithstanding any other provision of law, no penalty (for early withdrawal) shall be assessed by any depositary institution against a displaced worker or against any individual retirement account or individual retirement annuity established for the benefit of such worker by virtue of any distribution from such account or annuity for payment of training expenses of such worker in accordance with this title.

(2) To the extent any amount paid or distributed from an individual retirement account or an individual retirement annuity to pay training expenses is attributable to a contribution to such account or for such annuity which was guaranteed a rate of return on the basis of a fixed period of investment which had not ended on the date of such payment or distribution, the trustee or the insurance company, as the case may be, may make an adjustment in the rate of return on such investment. The adjusted rate of investment shall be determined as of the date of such contribution on the basis of the rate of return which would have been paid on the same investment for the period beginning on the date of such contribution and ending on the date of such payment or distribution.

(d)(1) For purposes of any State law relating to unemployment compensation which is required to conform to the requirements of subsection (a)(8) of section 3304 of the Federal Unemployment Tax Act (relating to approval of State unemployment laws), participation by a displaced worker in an eligible training program at a qualified institution shall be treated as being in training with the approval of the State agency within the meaning of such subsection (a)(8).

(2) No displaced worker who is otherwise eligible for any payment in the nature of unemployment compensation under any Federal law shall be denied such payment solely because such worker is in training in an eligible training program at a qualified institution.

ELIGIBLE TRAINING PROGRAMS; TRAINING EXPENSES

SEC. 203. (a) For purposes of this title—

(1) the term "eligible training program" means a training program—

(A) offered by a qualified institution to prepare students for gainful employment in a trade or occupation in which the Secretary has determined employment opportunities exist and will continue to exist, and

(B) recognized by the Secretary as an eligible training program in accordance with subsection (b);

(2) the term "training expenses" means—

(A) any tuition or fees required for the enrollment of, or attendance by, any displaced person in an eligible training program at a qualified institution, and

(B) any expenses for the purchase or use of any books, supplies, or equipment which are directly related to participation by such displaced worker in such training program and are supplied through such program; and

(3) the term "qualified institution" means—

(A) an institution of higher education (within the meaning given to such term by section 1201 of the Higher Education Act of 1965);

(B) a postsecondary vocational institution (within the meaning given to such term by section 481(c) of such Act);

(C) a proprietary institution of higher education (within the meaning given to such term by section 481(b) of such Act); and

(D) any other institution approved by the Secretary which provides retraining.

(b)(1) The Secretary shall by regulation prescribe—

(A) the manner in which a qualified institution may apply for recognition of a training program at such institution as a qualified training program, and

(B) the criteria to be used by the Secretary in determining whether such a training program shall be recognized as an eligible training program for purposes of this title.

(2) In making any determination under this section with respect to the recognition of any training program as an eligible training program, the Secretary shall take into account any determination relating to such training program by any of the following individuals or entities:

(A) Any determination by the Administrator of Veterans' Affairs, or any State approving agency (within the meaning of section 1771 of title 38, United States Code), relating to any educational assistance provided by the Administrator.

(B) Any determination by or under the direction of a private industry council established under section 102 of the Job Training Partnership Act (29 U.S.C. 1512), the Governor (or other chief executive) of any State, any Indian tribe, band, or group, or any Alaska Native village or group (within the meaning of the Alaska Native Claims Settlement Act) and any prior determination of the Secretary under the Job Training Partnership Act with respect to such training program.

(C) The Secretary of Education.

(D) Any State education agency.

(E) Any nationally recognized accrediting agency or association which the Secretary determines to be reliable with respect to evaluating the quality of training programs.

(c) Notwithstanding subsection (a)(3), no institution which discriminates on the basis of race, color, religion, sex, national origin, age, handicap, or political affiliation or belief shall be treated as a qualified institution.

SECRETARY OF LABOR REQUIRED TO KEEP PAPERWORK AT MINIMUM NECESSARY TO ADMINISTER THIS TITLE

SEC. 204. The Secretary shall take such steps as may be necessary to insure that the amount of paperwork and the lapse of time required to certify—

(1) any individual as a displaced worker, or

(2) any training program as an eligible training program,

shall be no more than the minimum necessary to administer this title and carry out the purposes of this Act.

TITLE III—STATE EMPLOYMENT SERVICE RESPONSIBILITIES

CERTIFICATION AND REFERRAL

SEC. 301. (a) There is authorized to be appropriated to the Secretary of Labor the sum of $37,000,000 for each fiscal year beginning on or after October 1, 1985, for payments to States in the manner described in subsection (b) to reimburse States for certain administrative costs incurred pursuant to this Act.

(b)(1) Any sum appropriated pursuant to the authorization contained in subsection (a) shall be allocated by the Secretary of Labor, on the basis of such criteria as such Secretary shall by regulation prescribe, among all States which meet the criteria prescribed in paragraph (2) to assist each such State to administer public employment offices (or such other agencies which the Secretary of Labor has approved under section 3304(a)(1) of the Federal Unemployment Tax Act).

(2) Any State shall be eligible to be included in any allocation of funds under paragraph (1) if the public employment offices (or such other agencies) in such State provide—

(A) certification for displaced workers in accordance with section 201(a); and

(B) labor market and training information and job search services (including the counseling referred to in section 201(b)(2)) to assist displaced workers to enroll in an eligible training program and to obtain employment as quickly as possible.

REPORT BY SECRETARY OF LABOR ON COMPUTER JOB BANK SYSTEM

SEC. 302. Before the end of the one-year period beginning on the date of the enactment of this Act, the Secretary of Labor shall submit to the Congress a report containing the following information:

(1) The extent to which the nationwide computerized job bank and matching program authorized under

section 465 of the Job Training Partnership Act (29 U.S.C. 1755) can be expected to increase employment opportunities in each State.

(2) The estimated cost of making such nationwide computerized job bank and matching program fully operational in the manner intended in such section.

(3) The extent to which the development of such nationwide computerized job bank and matching program will require changes in the existing employment service operations in each State.

(4) The feasibility of using nonprofit privately operated job-referral services for the referral of individuals to jobs in low-wage industries where little or no skill is a prerequisite for employment rather than using State employment service offices or such nationwide computerized job bank and matching program for such referrals in areas where such services are available.

TITLE IV—MISCELLANEOUS PROVISIONS

PRIVATE INDUSTRY COUNCILS AUTHORIZED TO PROVIDE INFORMATION

Sec. 401. Section 103 of the Job Training Partnership Act (29 U.S.C. 1513) (relating to functions of private industry council) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f)(1) The private industry council shall take such steps as may be necessary to make available throughout the service delivery area information concerning training programs in such service delivery area which have been recognized by the Secretary of Labor as eligible training programs under the National Training Incentives Act of 1985.

"(2) No cost incurred by a private industry council to carry out paragraph (1) shall be taken into account for any purpose under section 108.".

SPECIAL PROVISION FOR DISLOCATED WORKERS WITH RESPECT TO PELL GRANTS

SEC. 402. Notwithstanding section 482 of the Higher Education Act of 1965 or any other provision of law, the determination of the amount of the expected family contribution (within the meaning given to such term by subsection (b)(1) of such section 482) to a student for the purpose of determining the amount of a basic grant to such student under section 411(a) of such Act shall be made without including in the effective family income (within the meaning given to such term by subsection (b)(3) of such section 482)—

(1) the amount of any unemployment compensation received by such student; or

(2) the amount of any distribution from an individual retirement account established for the benefit of such student to the extent such amount was used to

pay training expenses (within the meaning given to such term by section 203) of such student,

if such student is certified to be a displaced worker in accordance with section 201.

○

Mr. **Martinez**. This meeting will come to order.

This hearing of the Employment Opportunities Subcommittee is called today to receive testimony on plans to compensate for the training of dislocated workers. Joining me on the subcommittee today is the ranking minority member, Steve Gunderson.

Due to the high rate of plant shutdowns which occur, an average of over one million workers are displaced annually. A recent Bureau of Labor Statistics study reveals that over five million workers, with at least 3 years' attachment to their jobs, were dislocated between 1979 and 1984. A quarter of these workers were still unemployed at the end of a 5-year period. Only 40 percent of these dislocated workers ever regained their departing salaries, while the rest accepted part-time work, accepted major pay cuts in new jobs, or simply left the labor force.

The labor study shows that older workers and minority workers were least likely to be reemployed than younger workers. The problem is national, impacting workers in every region of the country. Studies have conclusively shown that retraining, especially with advanced notification, is the most effective device to ease reemployment for workers and to reduce damage done to communities, and State and local economies.

Today we are looking at legislation to address these problems. H.R. 26, introduced by Representative Durbin, proposes a voluntary individual training account for retraining costs, while H.R. 1219, introduced by Congresswoman Johnson, will allow workers to withdraw funds from their Individual Retirement Accounts for retraining expenses.

Do you have a statement at this time?

Mr. **Gunderson**. Mr. Chairman, I have an opening statement I would simply like to make a part of the record.

Mr. **Martinez**. If there is no objection, it is so ordered.

[The opening statement of Hon. Steve Gunderson follows:]

Opening Statement of Hon. Steve Gunderson, a Representative in Congress from the State of Wisconsin

I am pleased to be here this morning, Mr. Chairman, to join with you and other Members of the Subcommittee on Employment Opportunities as we continue to address the problems of the dislocated worker. I commend you once again for your efforts on behalf of our Nation's workers, as demonstrated by the calling of today's hearing.

Since the peak of the recent recession in late 1982, Members of Congress have been active in trying to develop proposals to adequately assist dislocated workers obtain retraining, job search and relocation assistance. Under current law, title III of the Job Training Partnership Act (JTPA), the Dislocated Worker Program, provides funding for these services to dislocated workers through grants made to the States. While this program has been very effective since its enactment in October of 1982, the magnitude of the problem is such that we must continue to focus on programs that would address the plight of the displaced worker through varied innovative mechanisms.

Due to shifts in the labor market over recent years, such as changes in technology and import competition, many workers with long term attachments to dwindling industries are finding themselves without jobs or threatened with the potential loss of employment. In order to avoid either permanent unemployment or drastically reduced wages, these workers, in many cases, must acquire new skills in growth occupations. The two bills we consider in today's hearing, H.R. 26 and H.R. 1219 would provide workers with a pool of funds from which they could draw upon to finance such retraining.

In a study completed in November of 1984, the Bureau of Labor Statistics (BSL) found that 5.1 million workers with at least 3 years of attachment to their previous jobs had been dislocated between January of 1979 and January of 1984. of these 25 percent were still looking for work at the end of the 5-year period and about 15 percent had dropped out of the labor force completely. Only 39 percent of those reemployed were earning the same amount or more than they had been before their initial job loss.

H.R. 26, the "National Individual Training Account Act", sponsored by Rep. Richard Durbin and H.R. 1219, the "National Training Incentive Act", sponsored by Rep. Nancy Johnson are proposals that are intended to address the needs of the dislocated worker. Both bills would allow workers, while employed, to build a source of funds which could be used in the event that they are one day displaced from their jobs. Although differing in their mechanisms, both measures encourage workers to provide for their own retraining "safety net" should they have to face the prospect of job loss in the future. Both are innovative approaches to solving the problems of costly, but necessary retraining.

I commend Representatives Durbin and Johnson for the introduction of these two initiatives. While there many are questions yet to be answered, particularly with regard actual worker and employer participation in programs such as Individual Training Accounts and Individual Retirement Accounts, as well as the ever present question of program costs, I feel that we are on the right track. Through development of creative legislative initiatives as seen in H.R. 26 and H.R. 1291, we can assist the dislocated worker, giving him a hand in designing his own future.

I look forward to hearing the testimony of our distinguished and knowledgeable witnesses as we consider these alternatives today. Thank you.

Mr. MARTINEZ. On the first panel are the Honorable Sherwood Boehlert of New York; the Honorable Richard J. Durbin, Member of Congress from Illinois; the Honorable Nancy L. Johnson, Member of Congress from Connecticut; and the Honorable Marcy Kaptur, Member of Congress from Ohio. Welcome.

The chair would like to announce that all prepared statements will be entered into the record in their entirety, and the witnesses will summarize. Because of the shortness of time and the necessity for all of us to be on to other work, we will ask you to summarize your statements and maintain a 5-minute rule.

STATEMENT OF HON. SHERWOOD L. BOEHLERT, A U.S. REPRESENTATIVE FROM THE STATE OF NEW YORK; HON. RICHARD J. DURBIN, A U.S. REPRESENTATIVE FROM THE STATE OF ILLINOIS; HON. NANCY L. JOHNSON, A U.S. REPRESENTATIVE FROM THE STATE OF CONNECTICUT; AND HON. MARCY KAPTUR, A U.S. REPRESENTATIVE FROM THE STATE OF OHIO, A PANEL

Mr. BOEHLERT. Thank you very much, Mr. Chairman.

I am pleased to be here this morning because this hearing should focus on a subject that is too often ignored, the problem is displaced workers in America. The relatively sunny economic news seems to have blinded us to the growing number of displaced workers in our midst. The unemployed may be forgotten by some, but they are not gone.

It is estimated that there are about one million displaced workers in the Nation today, workers who have been laid off because their skills have become obsolete.

This is no temporary phenomenon that will evaporate through benign neglect. It is a persistent condition that changing technology and growing foreign competition are only likely to aggravate.

A Bureau of Labor Statistics survey that tracked five million displaced workers who lost their jobs between 1979 and 1984 found that 26 percent—more than one quarter—were still looking for work. Another 14 percent had dropped out of the workforce.

Moreover, nearly half the reemployed workers were earning less in their new jobs; many were working only part time.

Future surveys are likely to come up with even more disheartening results. Peter Drucker estimates that the continuing shift from a manufacturing economy to a service economy could displace as many as 10 million workers over the next 2 decades.

Of course, the service sector itself is not immune to displacement. The Labor Department counted more than half a million service personnel among the dislocated workers it studied.

While these statistics are upsetting, the human suffering they represent is far more disturbing. I need look no further than my own Congressional District in upstate New York to see the traumatic human costs of this economic upheaval.

In Cortland County, for example, Smith-Corona, the largest private employer, is facing intense, and probably unfair, foreign competition. As a result, the workforce at Smith-Corona, which is the last surviving American manufacturer of portable typewriters, has shrunk from more than 5,000 employees in 1975 to only about 800 today. As a consequence, the unemployment rate in the county has hovered between 10 and 11 percent for the past several months.

A Wilson Sporting Goods factory in the same county shut down for good a year or so ago because there was no longer any demand for the wooden tennis racquets it manufactured.

In the Utica area, layoffs at companies involved in everything from tool making to computer production have idled 1,500 workers since this past winter. But the number of displaced workers is only half of the problem. The other half is that the system we have in place to help these people is utterly inadequate.

As the Business-Higher Education Forum pointed out in a recent report—and I quote: "The United States has seriously underinvested in the skill development of its workers, compared to other industrialized nations. For instance, in sharp contrast to many foreign countries, the United States devotes 75 percent of its unemployment aid to income support and only 25 percent of those funds to re-employment assistance."

The Forum's assessment is correct. There is little money available for retraining and little incentive for workers to take advantage of what is available. Many States have laws that prevent workers from receiving unemployment compensation while enrolled in a training program.

If we don't do something to alter the situation now, we're likely to end up with the same unemployment problems in 1992 that we faced in 1982. The outlook need not be bleak if we apply some foresight and some political will.

The two complementary bills before you today would go a long way toward creating the changes in policies, and attitudes, our Nation needs to cope with economic change.

I am going to leave the specific description of, and arguments for, H.R. 26 to my co-author, Congressman Durbin. Let me note, though, that both bills would encourage employers and employees, the private sector, to invest in retraining. The bills would also engender new attitudes, attitudes more in line with economic reality.

The fact is that workers can no longer depend on having one job throughout their working years. These bills provide incentives to recognize that and to plan for it.

We all have a stake in making that realization widespread. Every 1 percent increase in the unemployment rate costs the Federal Government an estimated $30 billion to $40 billion in lost revenue, this at a time when we have a serious deficit crisis.

Failure to adjust to the post-industrial economy will exact a very, very high price.

Now I would be glad to turn this over to my co-sponsor and co-author, my friend from Illinois, Mr. Durbin.

Mr. MARTINEZ. Congressman Durbin.

Mr. DURBIN. Thank you, Mr. Chairman.

First let me commend the subcommittee for meeting today. Talleyrand once said; In time of peace, prepare for war. If we were in the depths of a recession today, I am sure that this subject matter would be the focus on national attention. Everyone would be trying to figure out what to do about the dislocated workers who will be lost in the next recession.

We have an opportunity in this session of Congress to plan ahead, something which isn't done quite nearly enough, either in the private sector or in the public sector. And your decision to hold this subcommittee hearing today, I think, indicates the kind of foresight we need to address our national problems.

I think it is also a good idea to bring together Congresswoman Johnson, with her proposal, H.R. 1219, which I am co-sponsoring, because her efforts are complementary to H.R. 26. I think that we can bring both of them together as a joint effort to address a very serious national problem.

I prepared H.R. 26 along with my colleague, Sherry Boehlert, with the assistance of the Northeast-Midwest Congressional Coalition. I want to commend them for their assistance in putting this important package together.

Let me describe the individual training account to you very briefly, because it is a departure from past policy in the United States, although it parallels some of the things that we have done successfully in the past.

The individual training account would meet the retraining needs of those workers who are dislocated by creating a fund attached to a specific workers that is jointly financed by the employee and employer. Unlike the Social Security system, an employee in the United States of America covered by the individual training account can check on a day-to-day basis what his or her balance is in that fund. They know from time to time, and they will know how much money might be available if they need it for retraining.

Under the voluntary system creating the individual training account, both the workers and the employers would agree to set up an ITA. They would each make tax-deductible contributions to the fund of eight-tenths of 1 percent of wages a year, or $250, whichever is less, until the fund reaches $4,000. The fund, like an individual retirement account, is invested and earns interest. That interest accumulates. If the workers are laid off at any time, they can use their contributions with the accumulated interest to pay for retraining. In doing so, they can acquire new skills.

Study after study shows that a dislocated worker who will go through a training program will generally end up with a job making as much or more than the one that they lost. And I think that is an important thing to keep in mind. So, training does hold out the possibility of a future that is bright.

If they are never laid off—let's assume we are dealing with a worker who is successful through his or her entire employment career and is never laid off. The individual training account is treated like an IRA, so that at the time of their retirement an average worker would have accumulated about $35,000, his share of the ITA, which has been accumulating interest during their working lifetime and can be used as a retirement nest egg.

Employers at the time of retirement, for example, can also be refunded their contribution to the fund. In those instances they would pay taxes, as the employee would, on the amount that they receive.

I think this legislation offers a flexible approach to the problem of the displaced worker. It combines a few things which we have had success with in the United States of America. The one which I think we all point to with great pride was the G.I. bill. In meeting after meeting in my district, I asked the people assembled, how many in that room took advantage of the G.I. bill after World War II, either with themselves personally or through their family, to get an education or put a down payment on a home. And the hands shoot up across the room.

What did we get out of the G.I. bill? We got a United States economy that was working at such a high level that we dominated the world economy for decades. I think there is a lesson to be learned there. We as a Nation made an investment. But let me tell you that, when you look at the statistics of our national commitment to the G.I. bill and our national commitment to training and retraining today, there is quite a different story.

In 1949, at the peak of the G.I. bill, we spent $2.7 billion as a Nation, or 1 percent of our gross national product on upgrading our workforce. In 1985 we are spending $4 billion to $5 billion. If we were to spend 1 percent of our gross national product today, we would have to spend $30 billion. In fact, we are committing one-sixth to one-seventh the amount of money to upgrading and training our workforce as we did in 1949 under the G.I. bill. Is it any wonder that we are falling short of the mark in placing dislocated workers?

This program, also, I think, is realistic because it does not create a new Government agency, some mega-buck agency that is going to administer the program from start to finish, cradle to grave. Instead, what the Federal Government has is a very limited role: to certify training programs through accredited institutions, to hold ITA funds in a separate trust fund, and to grant tax deductions for employer and work contribution.

Let me add as a footnote, we are in the middle of tax reform. If we come up with a proposal for a tax deduction, people might say, well, wait a minute, aren't you trying to sale against the wind? I thought we were going to do away with them.

Watch closely each of the tax reform proposals that comes before Congress. In each and every one of them, you will see a commitment to enhancing capital growth in the United States. And that's important. But we think there should also be a commitment to enhancing the growth of our human skill and the growth of our human capital. The ITA would be a step in that direction.

The other thing the ITA does, which is a little different, is to encourage personal initiative. A worker has to decide to participate, to get involved. Once that worker is involved, if he or she loses their job, they go through counseling to find the best training available. Then they go into the training program of their choice. Don't you think that will make for a better marketplace for training programs in America?

If you or I were dislocated, looking for a training program to get back to work and realized that half the money we are spending on our own training is right out of our own pockets, we are going to be a little more discerning and a little more careful with the program that we pick. And we also are going to ask some tough questions of the community colleges, the colleges of proprietary schools, how good is your program, how many people were placed, how many stayed on the job, and how much money did they make? We will ask the tough questions because we have a personal involvement in the dollars that are being spent.

Let me also add that the ITA is not going to answer all of the problems of training and retraining in America. Congressman Hayes represents a district in Chicago which is hard hit by minority unemployment, particularly among the youth, hard hit by illiteracy, lack of educational skills. The ITA—and I would suggest perhaps even Congresswoman Johnson's bill—will not address this directly. We still need to make a national commitment to many of these problems. But we hope that the individual training account will take a slice of the problem and address it effectively, an important part of it.

We commend the ITA to you today. I want to thank the subcommittee for giving me this opportunity to testify. I will welcome any questions after my colleagues have an opportunity to make their statements as well.

[The prepared statement of Hon. Richard Durbin follows:]

PREPARED STATEMENT OF RICHARD J. DURBIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

I would like to thank the Subcommittee for the opportunity to testify this morning on the individual training account legislation I have prepared with the assistance of the Northeast-Midwest Congressional Coalition and introduced with my colleague, Sherry Boehlert. I am pleased that the Subcommittee is focusing its attention on a critical aspect of our unemployment problem—the plight of dislocated workers.

We have proposed to establish individual training accounts to address the persistent problem of dislocated workers in our economy. As Rep. Boehlert pointed out, one of the ongoing legacies of the most recent recession is the millions of workers whose previous jobs no longer exist, but who have been unable to adjust to the changing needs of the labor market.

Individual training accounts would meet the retraining needs of these workers by creating a fund attached to a specific worker that is jointly financed by the employee and employer. Under this voluntary system, both workers and employers must agree to set up an ITA. They each then make tax deductible contributions to the fund of 0.8 percent of wages or $250, whichever is less, until it reaches $4,000.

If workers are laid off at any time, they can use these contributions, plus accumulated interest, to pay for retraining. In doing so, they can acquire new skills that will allow them to adjust to the changing needs of the job market. If they are never laid off, they can draw on their contribution plus interest when they retire, as with an IRA. Employers are also refunded their contribution, along with accumulated interest, if workers never use their ITAs for retraining.

This legislation offers a flexible approach to the retraining of displaced workers. Its greatest strength is that it is based on a combination of personal initiative, limited government involvement, and the individual choice that is incorporated in the time-tested GI Bill approach.

Individual choice: The GI bill approach initiated in the years after World War II not only provided access to education and training for millions of veterans, but it also gave them much freedom in choosing the type of program they wished to participate in. The ITA system we propose relies on that same model of individual choice. Once a worker has set up an ITA and contributed to it for at least one year, he or she is eligible to receive up to $4,000 in the form of a voucher to receive retraining at the institution of his or her choice.

This ITA system based on individual choice will introduce competition into the marketplace of retraining institutions just as the GI bill did after World War II. This is true not only because more workers will have retraining funds available to them but also because they will have contributed half the money themselves. These workers are more likely to be wise shoppers when it comes to training programs.

It is worth comparing the current level of federal spending on retraining of our workforce relative to what we spent on the GI bill in the post World War II years. The GI bill is widely acknowledged as having contributed substantially to the boom in our economic productivity in the 1950s and 1960s. In 1949, the peak year of the GI bill, we spent $2.7 billion, or one percent of our GNP, on the upgrading of our workforce. In 1985, we are spending between $4 and $5 billion. If we were to spend one percent of our GNP today as an investment in our workforce, it would require an expenditure of $30 billion.

Limited government involvement: The government's role under an ITA system would be more restricted than under previous retraining programs. The federal government would certify training programs through accredited institutions, hold ITA funds in a separate trust fund, and grant tax deductions for employer and worker contributions.

This type of limited government involvement is appropriate because it has a proven track record with the GI Bill and also because a much greater role is no longer desirable in today's deficit-conscious economy.

Personal initiative: Our proposed ITA system also relies heavily on workers' personal initiative. They must decide to set up an ITA, contribute to it while employed, and then how to use it if they are laid off. The system also affords workers a great deal of freedom, beginning with the decision on whether to establish an ITA. It encourages them to view retraining as a necessity in their future and it creates a mechanism to achieve it.

Along with this element of personal initiative, our proposal also provides workers with some direction. Workers are required to receive job counselling from upgraded state employment service before using their ITAs. This provision will not guarantee them a job, but it will help them make a far more informed choice about the retraining they should seek.

The ITA will not meet all of the training and retraining needs of our nation. Our youth, particularly minorities and those with educational deficiencies, will continue to need programs of a different type. But a large portion of unemployed Americans can use the ITA to find meaningful employment.

Without ITAs, our economy will continue to bear the costs of long term unemployment of displaced workers. The ITA system will go a long way toward easing the transition to new types of employment. It can be an important tool to help today's workers prepare for tomorrow's jobs.

Again, I thank the Subcommittee for the opportunity to testify here today. I welcome any questions my colleagues may have.

Mr. MARTINEZ. Thank you, Congressman Durbin.

Congresswoman Johnson.

Mrs. JOHNSON. Thank you very much, Mr. Chairman.

I am pleased to be a part of this hearing today and want to commend you and your subcommittee on directing your attention to the issues of job displacement and retraining that are so terribly important in the lives of the people that we represent, as well as in developing the resources of our Nation.

This issue is not just a matter of whether or not people can find jobs and avoid being laid off. Indeed, it is a matter of great social importance and impacts on our Nation's economic performance now and in the future and certainly will affect our competitive position in the world market in the decades ahead. In fact, the degree of prosperity we attain in the years ahead will depend in large part on how highly skilled our workers are and how quickly they are able to adapt to change.

I want to commend my colleagues, Dick Durbin and Sherry Boehlert, as well for their leadership in bringing forth a bill that would provide a tremendous stimulus to individual training initiatives. I am a co-sponsor of their bill, as they are of mine. We look forward to working with you to create a more comprehensive national training policy in the decades ahead.

I am also delighted to have with me this morning Congresswoman Marcy Kaptur and regret that Congressman Bill Clinger, who was scheduled to be here, is unable to do so, as his district was one of those devastated by the recent tornadoes in Pennsylvania. Consequently, he is there opening emergency support centers.

Mr. MARTINEZ. His statement will be entered into the record, though.

Mrs. JOHNSON. Thank you, Mr. Chairman. I appreciate that.

[Prepared statement of Hon. William Clinger follows:]

PREPARED STATEMENT OF HON. WILLIAM F. CLINGER, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Chairman, I would like to thank you for permitting me to testify today. I know you and the committee share my belief that worker retraining is one of the most critical issues facing our nation, and I commend you for your decision to hold this important hearing.

I would also like to compliment my colleagues Shelly Boehlert, Dick Durbin, Marcy Kaptur, and my House Wednesday Group colleague -- Nancy Johnson, for their important work and leadership on this issue.

Mr. Chairman, last year, the House Banking Committee's Subcommittee on Economic Stabilization held a hearing on worker retraining which was chaired by our colleague, the Gentlelady from Ohio, Ms. Oakar. I highly recommend that you and other members of the committee peruse through the record of that hearing, as many of the comments made then were most instructive and are relevant to today's investigation.

Briefly, I want to inform you about the history of H.R. 1219, the National Training Incentives Act of 1985, which currently enjoys the bipartisan cosponsorship of 45 members, including the Republican leader, Bob Michel, and five members of the Congressional Black Caucus.

Initially, this proposal was developed through a 1983 Special Report authored by Dr. Pat Choate of TRW, Inc. and released by the House Wednesday Group, which I currently chair. In publishing this report, the 21 Wednesday Group members who sponsored its findings and recommendations, hoped to bring renewed attention to the contribution of our work force to U.S. competitiveness. In this regard, I believe we share the goals embodied in the legislation sponsored by our colleagues in the Northeast-Midwest Coalition, Mr. Durbin and Mr. Boehlert, as well as those of this Committee.

Mr. Chairman, today the U.S. economy is fundamentally sound. Inflation is down, growth and productivity are up, and new industries and products have made the American economy the envy of all industrialized nations.

At the same time, Mr. Chairman, it is clear that many changes are occurring almost daily within our economy and the world's economy. It is also clear that those nations, businesses, and individuals that understand the inevitability of these changes and adapt policies that allow for timely and flexible responses to the uncertainties of change, will be those nations, businesses, and individuals that succeed in tomorrow's economy.

It is in recognition of this basic need to make a virtue out of change, rather than to forestall or fear it, that members of the Wednesday Group, under Nancy Johnson's leadership, as well several of our colleagues on the other side of the aisle, put together the National Training Incentives Act of 1985.

Specifically, in the area of retraining, according to Dr. Lewis J. Perelman, author of The Learning Enterprise, a recent publication of the Council of State Planning Agencies, "we still are too inflexible for the dramatic pace of the post-industrial revolution. Whole industries are floundering because of the resistance of managers and workers to the forces of change."

In the political arena, we all know that the product of this resistence is increased pressure to wall off our domestic economy from global competition. This, in turn, works against the long-term interests of all Americans, be they businesspeople, workers, or consumers.

Turning to the issue of the significance of retraining, I would like to bring to the Committee's attention several important findings contained in the study by Dr. Perelman which I quoted from earlier.

- The economic data indicate that the contribution of education and training to total productivity growth has increased from about one-fifth just after World War II to about one-half since the late 60s.
- Workers at all levels typically need to be retrained every four to six years for new careers. For example, a recent study indicated that the functional requirements of at least half the jobs in California will be substantially changed by technology within 5 years.
- With the aging of the baby-boom generation, over 75% of the American work force at the beginning of the next century will be comprised of people who are already adults today. The crisis that really is putting our nation at risk mainly centers on these 50 million Americans whose careers are threatened by future economic change.

Despite these important trends, in recent years we have consistently neglected our human capital development. According to Dr. Pat Choate, Director of Policy Analysis at TRW, Inc., in 1982, for example, tax incentives for worker retraining in the amount of $620 million were a mere fraction of the tax incentives for business investment which totalled roughly $45 billion. As a result, business invested an average of only $300 per worker for training in 1982, but more than $3,600 per worker for new plant and equipment purchases.

Mr. Chairman, I believe it is time to give equal or at least similar consideration to our human capital development, while at the same time recognizing that we need to structure flexible approaches that are triggered only when businesses and workers decide for themselves to finance additional skills training.

One aspect of our bill is a tax credit to businesses for investments in worker retraining. The training credit would be similar to the existing R&D tax credit, and would permit businesses to deduct from their tax liability 25% of the company's average training costs for the previous five years.

This approach recognizes the importance of investing in worker retraining as similar to the importance of investing in R&D and plant and equipment. It differs substantially from a straight-line business expense deduction, which could still be used with the tax credit, but which fails by itself to provide sufficient incentive for business to invest in worker retraining.

Moreover, this approach would not reward current retraining, but would reward retraining over and above a five-year average, and could be used by small businesses or unprofitable firms because of its carry-forward and carry-back provisions. The five-year provision is significant because, unlike the R&D tax credit which is calculated using a three-year average, our approach will lessen the possibility that dramatic increases in spending in any one year will reduce the future incentive value of the credit.

For every dollar in lost federal revenues, this proposal will generate four dollars in private sector training. It also offsets part of the financial costs to employers when workers trained by a company take their skills to another firm. This should particularly help small businesses.

Mr. Chairman, this approach -- which was recently supported by the President's Committee on the Next Agenda, made up of think tank representatives ranging from the liberal Brookings Institution to the conservative Heritage Foundation -- recognizes the importance of investing in worker retraining as similar to the importance of investing in R&D and in plant and equipment.

Lastly, this approach is consistent with recent proposals for tax reform. As the Committee knows, the President's plan continues investment incentives for research and development, and for plant and equipment, but fails to acknowledge the human element in competitiveness. By containing this essential component of competitiveness, our proposal makes the President's plan truly neutral.

Although the Joint Committee on Taxation estimates a revenue loss averaging $600 million annually from this reform over the next five years, this investment would provide leverage for $2.4 billion in additional private sector per year expenditures on retraining. It would also be a modest investment in reducing the billions of dollars in unemployment compensation paid out over the last several years.

The second prong of our legislation allows displaced workers to finance retraining with money withdrawn, without taxation or penalty, from their IRA or annuity accounts. This approach does not call for direct Federal outlays of money, but rather ties into an existing finance system which at the end of 1983 reached over 13 million households, many of which are supported by individuals with annual incomes under $30,000.

This provision, while not a panacea for the problems of our unemployed or underemployed workforce, does provide an additional financing option for those seeking retraining. Moreover, since we limit tax-free and penalty-free withdrawal to $4,000 over a five-year period, it is not likely that use of these funds for retraining will damage the long-term viability of the IRA as a retirement mechanism. It should also be noted that tax-free and penalty-free withdrawals from IRAs are already allowed under certain specific circumstances, so our proposal would not be setting a dramatic or inappropriate precedent.

One final point about the IRA, Mr. Chairman. A number of studies indicate that future displacement is likely to occur not so much in basic manufacturing, which has already been hard hit, but in services industries. Displacement is also likely to occur to people in middle management. It is these people who have already established IRAs or contemplate establishing them, and it is these people who would be best able to invest these funds in their future through retraining.

A third and very significant provision in our bill provides that the participation of displaced workers in an eligible training program will not disqualify these workers from unemployment compensation to which they are otherwise entitled.

As the Committee knows, despite the requirements of the Job Training and Partnership Act, only 13 states at present allow a worker in a retraining program to receive unemployment compensation. What we need, is to provide incentives for workers to seek retraining at the earliest possible time, thereby allowing them to acquire new skills and to depart the unemployment rolls. What we do not need is a system which mandates that people wait until their unemployment has run out before they can develop a new skill.

Let me emphasize that this bill is not intended in any way to replace JTPA or other efforts of Congress to assist the disadvantaged but rather to supplement their efforts. JTPA must be left untouched so that we can accurately determine its effectiveness and its worth. But we are talking about a significant problem in America today which may need more than JTPA, and which other federal policies designed to serve the needs of different segments of our society do not address.

What are the significant merits of H.R. 1219? First, business and workers finance their own retraining, resulting in greater controls on both the appropriateness and quality of the training. Second, our proposal is flexible, because its incentives are not linked to the vicissitudes of the Congressional budgeting process. These incentives also will not cost the federal Treasury any money unless business and workers themselves decide to spend more money on retraining, thereby triggering the legislation's tax incentives.

Finally, Mr. Chairman, I would like to point out that the bill also includes a provision for a national job bank system. It would require the Secretary of Labor to submit a report to Congress within one year of enactment regarding the cost of implementing a nationwide computerized job bank. A CRS analyst, Linda LeGrande, has completed an excellent study concerning the feasibility of this idea and I ask that her report be included in the record.

Mr. Chairman, although I am from a state which has been particularly hard hit with unemployment, I do not believe that the issue of retraining our workforce is confined to the northeast or midwest. This is a national issue.

In the coming decades, it is expected that our workforce will be generally confined to older Americans. In fact, the Bureau of Labor Statistics predicts a severe labor shortage within the next 25 years. As the Commerce Department points out, "this means that the current U.S. supply of labor must provide much of the competitive muscle in the coming decade. Older worker adaptation to technological change via retraining is therefore a key to U.S. international competitiveness in the decades ahead."

Mr. Chairman, it is imperative for Congress to act on this matter in the near future. Let's not allow the United States to be left behind while other nations improve their competitive advantage. We must insure that the American economic engine which drives global development stays in tune.

I strongly believe that H.R. 1219 provides the necessary incentives for employees and employers to meet our nation's retraining needs. While it does not answer all the problems faced in our labor markets, it is certainly an important first step.

Again, I appreciate the opportunity to testify on this legislation, and I look forward to working with the Committee as it develops an appropriate policy toward this vital issue. Thank you Mr. Chairman.

THE NATIONAL JOB BANK SYSTEM

ABSTRACT

Congress has long called for the establishment of a nationwide computerized job bank and matching system designed to improve the functioning of the labor market. Although the U.S. Employment and Training Administration has developed several versions of such a system, none appear to have fully met the legislative intent. This report describes the evolution of the national job bank system and examines the feasibility and merits of creating the kind of system originally envisioned by Congress.

THE NATIONAL JOB BANK SYSTEM

INTRODUCTION

For nearly 20 years, Congress has expressed ongoing interest in the development of a nationwide, computerized job bank and matching system. Beginning with the 1968 amendments to the Manpower Development and Training Act, through the Comprehensive Employment and Training Act of 1973 (as amended) and its successor, the Job Training Partnership Act of 1982, the Secretary of Labor has been authorized to develop and maintain a means of identifying available workers and job openings, matching the workers to the requirements of the jobs, and referring those qualified to the appropriate employers. The legislation specifies that the job bank and matching program should operate within and across geographic boundaries and requires that use of electronic data processing and telecommunications systems should be maximized, to the extent possible, for this purpose.

The intent of the national job bank concept is to improve the functioning of the labor market by more fully informing jobseekers of existing vacancies for which the jobseeker might be qualified. The use of electronic data processing and telecommunication equipment to speed the dissemination of employment information throughout the United States is designed to minimize the duration and maximize the scope of job search. The hoped for result is less unemployment, both in terms of shorter periods of unemployment and fewer people unemployed.

Over the years, the Employment and Training Administration (ETA) of the U.S. Department of Labor has produced more than one version of the national job bank concept. None appear to have fully met the statutory language described above, although each version has tried to improve upon its predecessor.

This report examines the evolution of the national job bank. It describes the system as it exists today and proposed legislation related to job banks. The feasibility and merits of achieving the statutory language are addressed, as well.

THE EVOLUTION OF THE NATIONAL JOB BANK

The term job bank has come to mean the listing and description of job openings submitted by employers to local Employment Service (ES) offices. Information in the national, State, and local job banks is used by ES counselors to refer qualified applicants to employers.

1. Past Experience

From about the 1940s through mid-1970s, a very primitive interstate job bank existed. ES personnel would select job orders that they had been unable to fill locally and send them to their State's clearance coordinator. The coordinator, in turn, would make paper copies of these hard-to-fill job openings and send them to each of the other State coordinators. The clearance coordinator in each State would then disseminate copies of the other States' individual listings to their local ES offices. If job applicants indicated a willingness to relocate to get a job, the employment counselor could hunt through the 49 paper listings of out-of-State job openings to determine if the applicants' characteristics met any of the jobs' requirements. This process proved to be extremely cumbersome and one that never really worked well. 1/

The establishment of an automated nationwide system to improve worker-job matching had to await the computerization of State and local job banks. In May 1968, the Nation's first computerized job bank began operating in Baltimore, Maryland. 2/ Today, computerized job banks exist in nearly every State, although the extent of computer capabilities varies.

With the automated State and local job banks in place, the ETA initiated the Interstate Clearance System in 1979. 3/ The Interstate Processing Service of the New York State Department of Labor in Albany, New York, along with the State and local job banks, formed the Interstate Clearance System. State and local ES offices selected job orders that they had been unable to fill and, once a week, mailed copies of the openings to Albany. The centralized operation in Albany consolidated the information, put it on microfiche cards, and sent it weekly to all State and local offices. Total turnaround time was about 10 days.

Under this system, ES counselors were able to consult one listing, rather than separate listings from each State, to see if out-of-State jobs were available for their interested applicants. In addition, the Interstate Processing Service also would computer-match applicant information sent to it by ES offi-

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1/ Based upon discussion with ETA personnel.

2/ Ibid.

3/ U.S. Congress. House. Committee on Science and Technology, Subcommittee on Investigations and Oversight. Job Forecasting. Hearings, 98th Congress, 1st session. April 6-7, 1983. p. 292-293.

ces with the requirements of jobs listed in the interstate system. 4/ The ES offices then would receive a computer output of the applicant-job matches.

The Interstate Clearance System had several problems. 5/ First, the procedure still imposed a heavy paperwork burden on local offices. Second, some ES personnel preferred to hold onto job vacancies in the hope of eventually filling them with unemployed workers from their local area. Both these factors contributed to a third problem, namely, lack of participation in the system: only about 1,500 vacancies were advertised annually. Fourth, all ES offices were not equipped with machines to read the microfiche. And fifth, jobs were often filled by the time the interstate information reached local employment counselors.

2. Current Status

In response to these problems, the ETA began to explore ways to improve the system in November 1982. Effective June 1983, the Interstate Clearance System was replaced by the National Job Bank System. 6/ It is composed of the Interstate Job Bank in Albany (formerly called the Interstate Processing Service) and the State and local job banks. The new system was tested for one year before being officially announced as operative by the Secretary of Labor in July 1984.

The revised system differs from and is intended to overcome some of the problems of its predecessor. Two innovations are designed to increase use of

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4/ Based upon discussion with ETA personnel.

5/ Bureau of National Affairs. DOL to Revamp Interstate Transfer of Job Orders. Employment and Training Reporter. March 2, 1983. p. 730-731.

6/ Bureau of National Affairs. Interstate Job Bank Changes Made. Employment and Training Reporter. June 8, 1983. p. 1327.

the system by State and local ES offices. The ETA has suggested that the offices use automated criteria to extract from all listed job orders those that should go into the interstate system. 7/ By programming State and local job bank computers to select those job orders that remain unfilled after a certain number of days, or that are in particular occupations or above a specified salary level, the reluctance of some ES personnel to put jobs into the system can be overcome. As a consequence, more jobs than in the past should now appear in the system. Moreover, automated extraction of job orders reduces the paperwork involved in placing a job in the interstate system and could thus further encourage participation. In addition, hard-to-fill job orders can now be transmitted between ES offices and Albany on computer tapes or through telecommunication with computers, as well as on microfiche cards. As these alternative methods of information dissemination also lessen the paperwork burden, use of the interstate system could well be spurred.

At present, 11 States are using automated criteria to select job orders for submission to the interstate system. 8/ These States are Connecticut, Florida, Idaho, Louisana, Michigan, Minnesota, Nevada, New York, South Dakota, Texas, and Virginia.

Not all States are either able or willing to switch from microfiche cards to computer tape or online telecommunication transmission of job orders to Albany because of differing computer capabilities. Today, 40 States are using computer tapes to submit job orders to the Interstate Job Bank. 9/ In 5 States

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7/ Based upon discussion with ETA personnel.

8/ Ibid.

9/ Ibid.

(Missouri, Nevada, Ohio, South Carolina, and Utah), job orders are being sent from their computers to Albany over telecommunications linkages. Another 7 States (Arizona, California, Indiana, Montana, Pennsylvania, Tennessee, and Wyoming) are transmitting paper copies of job orders to Albany.

All States continue to receive microfiche cards back from the Interstate Job Bank for use in their local ES offices. If Albany sent the interstate information to the States on computer tape and they stored it in their computers, the cost would be prohibitive according to some States. 10/

The new Interstate Job Bank no longer will computer-match applicants' job characteristics to vacancies listed in Albany's computer. The ETA has determined that the worker-job matching performed in Albany under the 1979-1982 system duplicated services provided at the State and local level. 11/ Applicant-job matching now is the sole responsibility of State and local ES offices, regardless of whether the match is made with jobs inside or outside the State. The Interstate Job Bank will continue to monitor referrals and placements. 12/

During 1984, there were about 25,800 new, unduplicated job orders and 44,700 job openings in the Interstate Job Bank. 13/ The largest share were professional positions (41 percent). The median salary of listed jobs was about $22,000. (See Appendix for a sample of jobs listed in the interstate system.)

9/ Ibid.

10/ Mortisugu, Ken. Nationwide Job Bank Short on Depositors. Washington Post. July 20, 1984. p. A19.

11/ Based upon discussion with ETA personnel.

12/ Bureau of National Affairs. 'ETA' Explains Interstate Job Bank Role. Employment and Training Reporter. May 16, 1984. p. 934.

13/ Based upon discussion with ETA personnel.

RECENT LEGISLATIVE PROPOSALS

Two bills related to job banks that were introduced in the 98th Congress have been reintroduced in the 99th Congress. The Community Renewal Employment Act (H.R. 1036, 98th Congress, 1st session; H.R. 670, 99th Congress, 1st session) proposed by Representative Augustus Hawkins addresses the State job bank system in section 402. The bill would appropriate $50 million for FY86 and for each of the three succeeding years for the development and implementation of job banks in every State. Electronic data processing and telecommunication systems would be used by the job banks to identify and continually update job openings as well as to refer applicants to openings, among other things. The bill states that the computerized job banks should be compatible with other automated systems already in use.

The National Training Incentives Act (H.R. 5159, 98th Congress, 2nd session; H.R. 1219, 99th Congress, 1st session) proposed by Representative Nancy Johnson addresses the national job bank system in section 302. The bill would require the Secretary of Labor to submit a report to Congress within one year of enactment on such issues as the cost of fully implementing a nationwide computerized job bank and matching system as intended most recently under section 465 of the Job Training Partnership Act, and the extent to which such a program would require changes in existing State ES operations.

FEASIBILITY AND MERITS

Technologically, a nationwide computerized job bank and matching system is feasible. 14/ Over the years, however, each State largely has developed

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14/ U.S. Congress. Job Forecasting. p. 162, 163, and 267.

and implemented its job bank system independently of the others. As a consequence, not all statewide job banks are automated; those that are automated are so to varying degrees; and the separate systems are not always compatible. The ETA is faced with trying to take these diverse elements and integrate them. Given this starting point, it is possible that much of what already is in place may have to be discarded in order to build the unified system envisioned by Congress. 15/ In addition, bringing these fragmented pieces together could well be less technologically straightforward and more expensive than if an integrated system were being developed from scratch.

A more fundamental issue is whether the national job bank would improve the functioning of the labor market, given current employer and worker use of the ES. Most job orders submitted to ES offices by employers require fairly low skill levels and pay fairly low wages. They usually can be easily filled by workers from the local labor market. In addition, they are not the kind of jobs for which people would be willing to relocate. On the other side of the coin, most jobseekers who go to ES offices looking for employment are unskilled or semiskilled workers. 16/ If told of jobs for which they were qualified that required them to move outside their communities, they probably would not do so for a job paying the $4 - $8 hourly rate that their skill level might command. Therefore, since State and local job banks largely contain jobs that can be filled locally and since most ES clients are unlikely to be willing to move to obtain a job, the usefulness of an interstate job bank that contains all jobs

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15/ Ibid. p. 294.

16/ Ibid. p. 162 and 163.

in State and local job banks and that permits matching of all ES clients' characteristics with these jobs would be limited.

A more practical system, given current employer and worker use of the ES, is to select from State and local job banks only those vacancies for which workers might be willing to relocate. Typical characteristics of such jobs might be the requirement of specialized education, training, or experience (e.g., skilled white-collar and blue-collar jobs) and relatively high salary levels.

Under the latest version of the interstate system, the ETA is encouraging the ES to extract this type of job from their State and local job banks. Although the number of vacancies in the new system is much higher than in the previous system, the jobs that are listed still account for fairly few skilled white-collar and blue-collar job openings. Moreover, fairly few skilled white- and blue-collar workers look to the ES as a source of job information. Consequently, the costs of developing and implementing a nationwide computerized job bank and matching system as originally envisioned by Congress may exceed the benefits derived from serving such a small share of all U.S. employers, jobs, and workers.

If more employers would list more "high level" jobs and if more "high level" workers would use the ES, then a national automated job bank and matching system might be worthwhile. The basic prerequisite that would merit such a system is getting employers to advertise their full range of vacancies with the ES. 17/ Then, once workers became aware that large numbers of "good" job openings for which they might be willing to relocate were being listed in job banks, it is very likely that they would increasingly turn to the ES as a source of employment information. Thus, the quantity of high quality jobs listed in the State and local job banks underlies the merit of the nationwide job bank concept. And this is something that is controlled largely by private employers, not by the ETA.

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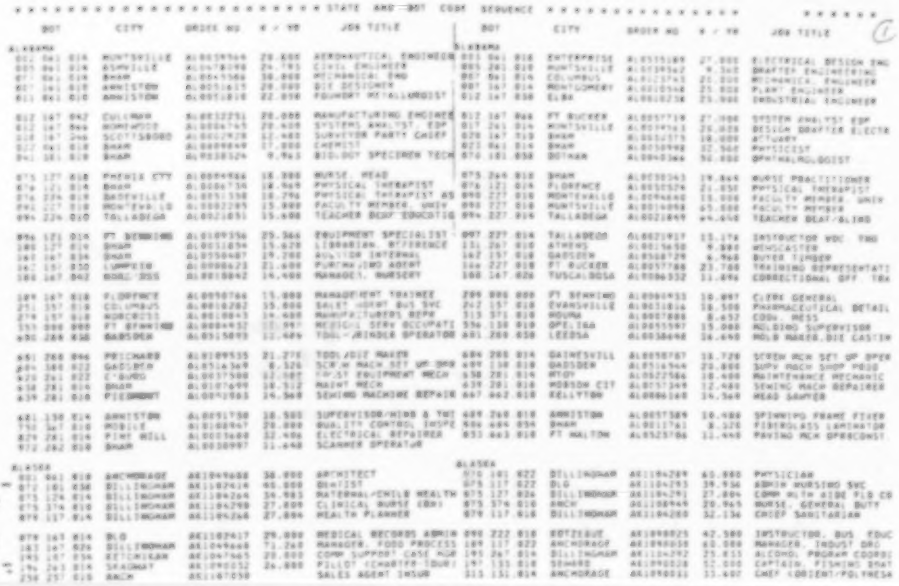
SAMPLE LISTINGS FOR INTERSTATE JOB BANK



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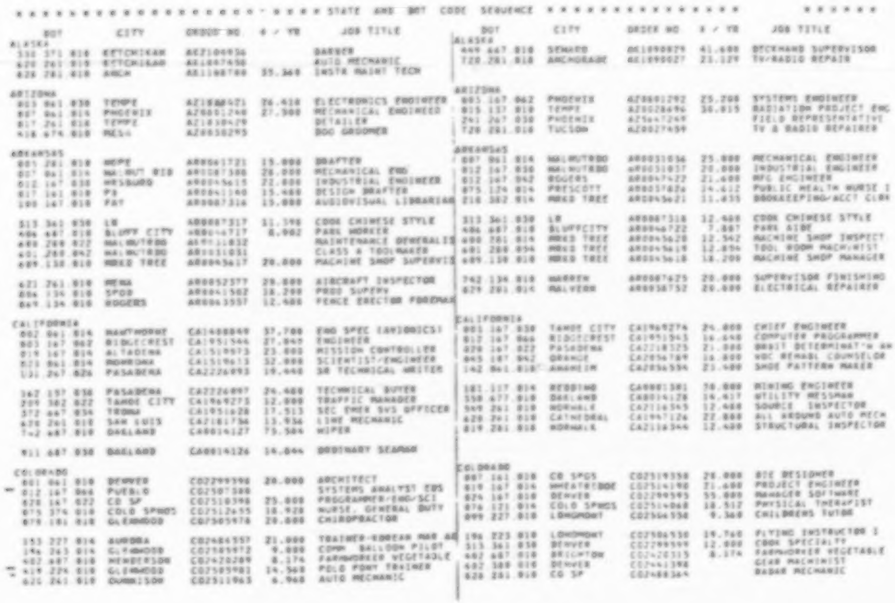

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 250 257 010  WORCESTER       MA5216249   15.000  COUNSELLOR SALES EXEC     275 357 050  WALTHAM         MA6502301   17.680  SALES REP OFF MACHINE
 313 131 018  FRAMINGHAM      MA3507630   15.260  HEAD COOK                 313 361 014  ASHLAND         MA3507499   10.400  COOK INST  HEAD
 556 380 010  FITCHBURG       MA5403707   10.000  MOLD TECHNICIAN           600 280 022  HOLLISTON       MA3507499   17.400  MACHINE MILLING
 600 280 030  CAMBRIDGE       MA6206363   18.200  EXPERIMENTAL MACHINIST    601 130 010  FITCH           MA5403382   25.000  MOLD MAKER SUPV

 600 150 010  HUDSON          MA5985800   20.800  SUPERVISOR DAY SHIFT      604 280 010  WORCESTER       MA5215835   11.000  SCREW MACH SET UP OP
 604 382 022  ASHLAND         MA3507277   10.400  SCREW MACH SET UP OP      604 382 010  HUDSON          MA5925011   10.640  SCREW MACHINE OPR
 617 380 010  HOLLISTON       MA3507521   16.640  SET UP KICK PRESS         620 281 010  FRAM            MA3507350   13.000  MECHANIC
 625 281 530  QUINCY          MA6804141   20.000  ENGINEERING PLANNER       638 281 014  QUINCY          MA6804136   10.400  MECHANICAL MAINTENANC
 630 281 010  WORCESTER       MA3507235   10.720  CONVEYOR INSTALLER        651 602 010  BOSTON          MA7210140   12.400  OFFSET PRINTING OPR

 660 280 010  ROSLINDALE      MA7210166   16.560  CARPENTER ALL AROUND      660 280 010  NORWOOD         MA6103041   16.560  CABINETMAKER
 683 260 010  W GRISDALE      MA3304777   16.560  LOOM FIXER                704 382 010  SPFLD           MA6140063   18.720  ENGRAVER
 716 382 018  EASTHAMPTON     MA2225108   30.000  OPTICAL TECHNICIAN        726 281 014  HOPKINTON       MA3507525   16.560  TEST TECH
 720 684 010  FRAM            MA3507223    9.817  WIRER                     726 684 010  FRAM            MA3507030    8.000  CABLE HARNESS ASSEMBL
 763 684 050  ROSLINDALE      MA7210167   12.480  GENERAL SHOP HELP FOR     777 131 050  HANOVER         MA5907800   25.000  SUPER MOLD SHOP

 780 684 046  NEWTON          MA6502474   12.480  UPHOLSTERED FURNITURE     787 682 046  BOSTON          MA7210150   10.400  STITCHER
 787 682 046  BOSTON          MA7210161   10.400  DRAPERY SEWER             804 281 010  QUINCY          MA6804011   18.116  SHEETMETAL WORKER
 804 281 010  NEWIPSWICH      MA5404889   16.560  SHEET METAL WORKER        806 131 020  QUINCY          MA6804031   23.000  SUPERVSR STEEL TRADES
 806 281 014  QUINCY          MA6804013   18.116  RIGGER                    806 381 046  QUINCY          MA5998571   16.092  SHIPFITTER
 810 384 014  QUINCY          MA5998509   16.092  WELDER                    816 464 010  QUINCY          MA6804015   18.116  BURNER

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 828 261 014  LEXINGTON       MA5587091   13.100  FIELD SERVICE REP         828 281 010  MILFORD         MA3605521   13.200  ELECTRONIC TECHNICIAN
 828 281 010  CAMBRIDGE       MA6206366   16.600  NETWORK TECHNICIAN        828 161 014  NORTHAMPTO      MA2624736   15.000  ASSEMBLY SUPERVISOR
 829 281 014  QUINCY          MA6804100   18.400  ELECTRICAL MAINTENANC     840 381 010  BOSTON          MA7200790   12.644  MAINTENANCE PAINTER

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 860 381 022  SHARON          MA3507296   20.000  FRAMING CARPENTER         862 261 010  QUINCY          MA5998107   16.092  PIPE FITTER
 869 664 014  AUBURN          MA5216176   19.760  PIPE LINE FOREMAN         899 381 010  FRAMINGHAM      MA3507523   12.400  GENERAL MAINT
 904 383 010  FRAM            MA3507400   16.848  CLASS I TRUCK DRIVERS     904 383 010  NATICK          MA3507535   15.600  TRACTOR TRL DRIVER
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 905 663 014  HOPKINTON       MA5507696   12.480  DEL. TRUCK DRIVER         905 663 014  ALLSTON         MA7210157   15.000  TRUCK DRIVER CLASS 2
 906 683 022  HYDE PARK       MA7210170   10.400  TRUCK DRIVER CL 3         920 587 018  FRAMINGHAM      MA3507639   11.440  PRODUCTION WORKER
 950 382 026  MILFORD         MA3603407   18.500  MAINTENANCE ENGINEER      950 362 026  NATICK          MA3507612   22.880  ENG MAIN 2ND 3RD CL

MICHIGAN                                                                    MICHIGAN
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 007 061 014  WARREN          MI0503676   30.960  MECHANICAL ENGINEER       007 061 014  GR RAPIDS       MI0567240   32.000  MECHANICAL ENGR DESIG
 007 061 026  BURTON          MI0518012   20.000  TOOL & FIXTURE DESIGN     008 061 018  MIDLAND         MI0521597   18.000  CHEMICAL ENGINEER
 008 061 022  E LANSING       MI0491278   36.000  CHEM RESEARCH ENGR        011 061 010  VASSAR          MI0532039   25.000  FOUNDRY METALLURGIST
 011 161 010  TROY            MI0526715   25.000  METALLURGICAL ENGINEE     012 167 030  VASSAR          MI0532038   22.000  INDUSTRIAL ENGINEER

 012 167 066  MIDLAND         MI0521572   30.000  PROCESS ENGINEER          012 167 030  VASSAR          MI0532040   23.000  QUALITY-ENGINEER
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 090 227 010  E LANSING       MI0491366   25.000  RESEARCH ASSOC            153 227 018  SAGINAW         MI0555109   10.000  SCUBA DIVER INSTRUCTO
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 183 167 018  CORUNNA         MI0552794   30.000  SALES MGR                 186 167 030  SAGINAW         MI0555117   17.900  FINANCE DIRECTOR
 189 117 014  SAGINAW         MI0555119   20.250  RESEARCH & MGR ANALYS     189 117 034  TRENTON         MI0527367   50.000  VICE PRESIDENT
 189 167 014  OAK PARK        MI0526752   34.000  DIRECTOR COMMUN  DEVE     202 362 010  DETROIT         MI0535094   20.000  COURT REPORTER

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 601 130 010  STERL HTS       MI0503429   27.600  DIE CONST&REPAIR SUPV     601 280 046  ROCHESTER       MI0543317   33.280  TOOL & DIE
 620 261 010  TRAV CITY       MI0547565           TECHNICIAN                608 130 018  BURTON          MI0492466   20.000  GENERAL FOREMAN
 726 130 018  MARSHALL        MI0556040   18.000  ELECTRONICS SUPERVISO     824 261 010  ROCHESTER       MI0543314   27.372  ELECTRICIAN-INDUSTRIA
 827 684 010  GREENVILLE      MI0540020    1.455  ASSEM

MINNESOTA                                                                   MINNESOTA
 003 061 010  NO MANKATO      MN1212265   35.000  ELECTRICAL ENGINEER       003 061 026  NO. MKTO.       MN1212267   24.000  APPLICATIONS ENGINEER
 003 061 030  N MANKATO       MN1211165   26.030  SENIOR MANF PROCESS E     003 167 062  EDINA           MN1116736   30.000  PROJECT DATA COORD
 003 261 010  NO MANKATO      MN1212574   11.960  OPERATION & MAINT TEC     007 061 014  N MANKATO       MN1211143   24.000  DESIGN ENG. MECHANIC
 007 061 026  ST. PAUL        MN1117780   26.000  PROJECT ENGINEER          007 061 014  BLAINE          MN1168750   18.000  MECH ENG
 007 061 018  MPLS            MN1103598   27.000  DESIGNER                  007 061 022  MPLS            MN1116759   24.000  DESIGN ENGINEER

 007 061 022  ST PAUL         MN1168331   36.570  MECHANICAL DESIGN ENG     007 161 010  WINONA          MN1171842   99.970  MECH DESIGNER
 007 161 034  MPLS            MN1103590   27.000  MECHANICAL TEST ENGR      007 281 010  BENSON          MN1190739   11.440  MECHANICAL DRAFTER
 008 061 010  ST PAUL         MN1115387   25.000  ASSOC CHEMICAL ENGINE     008 061 010  ST PAUL         MN1155066   42.192  ELECTROCHEMISTRY SCIE
 008 061 010  NEW ULM         MN1215536           CHEMICAL ENGINEER         012 167 030  MORA            MN1197366   18.300  ECON  DEV  PLANNER
 019 061 010  ROCHESTER       MN1170613           BIOMEDICAL ENGINEER       020 062 010  MPLS            MN1103608   23.400  ASSOC SOFTWARE ENGR

 020 062 010  MPLS            MN1103586   30.000  SOFTWARE ENGINEER         020 062 010  MPLS            MN1103578   25.992  SOFTWARE ENGINEER
 020 062 010  MPLS            MN1103585   36.000  SOFTWARE ENGINEER         020 162 014  WINONA          MN1171822   99.999  COMP OPR /PROGRAMMER
 020 167 022  MPLS            MN1103580   23.000  PROGRAMMER ANALYST        020 167 022  MPLS            MN1103573   32.400  RESEARCH SCIENTIST
 023 061 014  MPLS            MN1103595   36.000  ADVANCED SCIENTIST        023 061 014  MPLS            MN1103596   36.000  ADVANCED SCIENTIST
 024 161 010  PLYMOUTH        MN1115433   11.440  FIELD TECHNICIAN          073 061 018  MPLS            MN1103586   23.300  IMMUNOLOGY RESRCH VET

 075 374 022  ALBERT LEA      MN1190366   18.000  INDUSTRIAL PLANT NURS     079 367 014  MPLS            MN1215579   12.000  MED RECORDS TECHN
 078 371 010  CALEDONIA       MN1173036   10.400  DENTAL ASST               097 227 010  PINE CITY       MN1197242   99.999  INSTRUCTOR FARM MGMT
 153 227 018  MPLS            MN1103578   37.100  SEATING PRO/INSTRUCTO     153 227 018  MPLS            MN1103589   37.100  ICE DANCING INSTRUCTO
 160 167 010  BLUE EARTH      MN1157425   12.000  ACCOUNTANT                160 167 026  MPLS            MN1103593   25.560  MANAGEMENT ACCOUNTANT
 162 157 038  WELCOME         MN1157410   12.450  BUYER                     163 167 014  MPLS            MN1103576   41.000  EXEC SALES MANAGER

 163 167 018  MORTON          MN1232147   20.000  SALES MGR                 163 167 018  CHASKA          MN1116394   40.000  PRODUCT MGR (CONSUMER
 163 167 018  EDEN PRAIR      MN1279673   33.000  DISTRICT SALES MANAGE     164 117 010  MPLS            MN1103597   26.000  MARKET/ADVERTISING DI
 169 167 010  CENTER CIT      MN1107250   99.999  ZONING ADMINISTRATOR      169 167 014  ST PAUL         MN1160835   16.000  CUSTOMER SUPPORT/ADMI
 169 167 058  DULUTH          MN1129780   15.000  COMMERCIAL INS MARKET     183 117 014  MANKATO         MN1211159   50.000  OPERATIONS MANAGER
 183 167 010  ROSEVILLE       MN1117668   66.400  9112-86 SUPT PRODUCTI     185 167 046  KENOSHA         MN1237466   12.000  RETAIL MANAGER

 186 117 010  BRAINERD        MN1130607   22.000  CONTROLLER                186 267 010  LITCHFIELD      MN1213924   18.000  MGMT TRNEE/LOAN OFFIC
 187 117 010  MPLS            MN1103572   30.000  DIRECTOR OF DEVELOPME     187 167 154  BROOKINGS       MN1157621   17.480  MANAGER-THEATER
 189 117 010  FAIRMONT        MN1157616   13.200  SALES & SERV COORD        189 117 022  MPLS            MN1103587   29.100  GENERAL MANAGER
 189 117 026  MANKATO         MN1211146   30.000  MANAGER/PRESIDENT         195 107 022  MPLS            MN1116780   16.914  SOCIAL WKR II-F T
 201 362 010  NO MANKATO      MN1211186   12.000  SECRETARY, MARKETING      201 362 010  ST LOUI PK      MN1279381   12.000  LEGAL SECRETARY

 201 362 010  M.PLS           MN1160622   16.400  LEGAL SECY -OFF MGR       201 362 010  SHOREVIEW       MN1160987   15.000  LEGAL SECRETARY
 201 362 010  MPLS            MN1116624   12.000  SECRETARY - LEGAL         201 362 030  MORA            MN1213236   11.440  SEC'TRY/TYPIST
 201 362 030  MPLS            MN1134561   10.000  SECRETARY/RECEPTIONIS     201 362 030  MPLS            MN1116692   12.780  901 SECRETARY
 201 362 030  MPLS            MN1116695   12.[illegible]  [illegible] SECRETARY           201 362 010  SHOREVIEW       [illegible]
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* STATE AND DOT CODE SEQUENCE *

DOT	CITY	ORDER NO	$ / YR	JOB TITLE	DOT	CITY	ORDER NO	$ / YR	JOB TITLE
TEXAS					TEXAS				
012 167 050	AUSTIN	TX5555469		OPERATIONS PLANN ASST	012 167 054	AUSTIN	TX5555463		DESIGN CHECKER
012 167 054	AUSTIN	TX5555466		DESIGN CHECKER SR	012 167 054	AUSTIN	TX3118724		PRODUCT ASSURANCE ENG
012 167 054	AUSTIN	TX3118999		PROD ASSURANCE ENG SR	012 167 066	AUSTIN	TX3118726		ADV SYS ENGR SPEC
012 167 066	AUSTIN	TX3116168		OPER RESEARCH ANALY S	012 167 066	ARLINGTON	TX3225048	25.500	COMPUTER PROGRAMER
012 167 066	HOUSTON	TX3265644	20.000	PROGRAMMER ANALYST	012 167 066	HOUSTON.	TX2871557	20.000	PROGRAMER ANALYST
012 167 066	HOUSTON.	TX2871575	21.000	SYSTEMS ANALYST,EDP	015 061 014	ARLINGTON.	TX2871571	25.392	NUCLEAR ENGINEER
018 167 042	HOUSTON.	TX2511197	18.000	SURVEYOR GEODETIC	019 081 010	AUSTIN	TX3117963		MAINTAINABILITY ENGR
019 081 022	AUSTIN	TX3117964		RELIABILITY ENGR SR	019 167 010	AUSTIN	TX3117958		LOGISTICS ASST
019 167 010	AUSTIN	TX5555465		LOGISTICS ANALYST	020 067 010	AUSTIN	TX3256777		STAFF ENGINEER
020 067 010	AUSTIN	TX3256778		SCI PROGRAMMING SPEC	020 067 014	AUSTIN	TX3115601		MATHEMATICAL ANALYST
020 067 018	AUSTIN	TX3115606		MATHEMATICAL ENGINEER	020 067 018	AUSTIN	TX3115605		MATHEMATICAL ENGR SR
020 162 014	HOUSTON.	TX2871573	17.784	SYSTEMS ANALYST	020 162 014	HOUSTON	TX5514248	20.000	SYSTEM PROGRAMMER
020 162 014	HUNTSVILLE	TX3402498	20.052	EDP AUDITOR	020 167 014	AUSTIN	TX5184808	24.000	PROGRAMMER
020 162 014	DALLAS	TX3296138	27.000	PROGRAMMER	020 167 010	FT WORTH	TX5384825	18.525	ACTUARIAL/STAT-ANALYS
020 167 014	HOUSTON.	TX2511180	19.000	FINANCIAL ANALYST	020 167 022	AUSTIN	TX5254780		SCIENTIFIC PROG SR
020 167 022	AUSTIN	TX5092713		SCIENTIFIC PROGRAMMER	020 167 022	AUSTIN	TX5206960		COMPUTER PROGRAM ASST
022 061 010	NEDERLAND	TX5472479	27.600	CHEMIST	024 061 010	HOUSTON	TX5584620	40.200	RESEARCH SCIENTIST
024 061 010	HOUSTON	TX5472500	25.200	GEOPHYSICIST	024 161 010	COLL STA	TX5223045	23.920	SOILS ENGINEER
045 061 014	AUSTIN	TX5115277		HUMAN FACTORS ENGR SR	045 107 022	BMT	TX5279044	22.272	PSYCHOLOGIST
045 107 022	BMT	TX5279045	27.152	PROGRAM OFFICER II	050 067 014	HOUSTON.	TX2871577	22.000	MARKET-RESEARCH ANALY
070 010 022	BMT	TX2864989		PHYSICIAN-HEALTH CENT	070 101 022	DALLAS	TX5584536	41.600	PHYSICIAN
070 101 026	MIDLAND	TX5184736	40.000	FAMILY PHYSICIAN	070 101 026	JEWETT	TX5223014	40.000	FAMILY PRACTIONER
070 101 026	RICHARDSON	TX5474819	50.000	FAMILY PRACTITIONER	070 101 094	D PRAIRIE	TX5474817		PLASTIC SURGEON
070 101 098	WASKOM	TX5472499		UROLOGIST	070 107 014	BMT	TX5279046		PSYCHIATRIST III
074 161 010	BMT	TX5279062		PHARMACIST	074 161 010	JASPER	TX5225577	27.560	PHARMACIST
075 117 022	BMT	TX5275530		DIRECTOR OF NURSING	075 117 022	BMT	TX5275531		ASST DIRECT NURSING
075 117 022	BMT	TX5275533		UNIT SUPV NURSING	076 121 010	WACO	TX5473441		OCCUPATIONAL THERAPIS
076 121 014	HOUSTON	TX5198568		PHYSICAL THERAPIST	076 121 014	BMT	TX5279063		PHYSICAL THERAPIST
076 127 014	BMT	TX5276026		REG MUSICAL THERAPIST	077 117 010	BMT	TX5275552		DIETICIAN
090 117 010	ORANGE	TX5546981	30.000	DEAN OF TECHNICAL ART	090 117 010	BMT	TX5276986		DEAN-COLLEGE OF EDUCA
090 167 010	BMT	TX5278211		DEPT HEAD ENGR	090 227 010	BMT	TX5278739		INSTRUCTOR/COMP SCI
090 227 010	BMT	TX5278210		ASS'T PROFESSOR ENGR	090 227 010	BMT	TX5276975	22.000	ASST PROF CHEMISTRY
090 227 010	BMT	TX5276975		ASST ASSOC PROF ELECT	090 227 010	BMT	TX5276976	17.000	INSTRUCTOR OF NURSING
090 227 010	BMT	TX5276961	20.000	CURRICULUM & INSTRUCT	090 227 010	BMT	TX5276982	21.000	ASST PROF OF BIOLOGY
090 227 010	AUSTIN.	TX5494065	18.000	RESEARCH ASSISTANT	090 227 010	SAN ANGELO	TX2702365	16.694	BIOLOGY INSTRUCTOR
090 227 010	SAN ANGELO	TX2702366	16.694	CHEMISTRY INSTRUCTOR	090 227 010	BMT	TX286498[illegible]		ASST PROFESSOR OF FIN
090 227 010	BMT	TX5276978		ASST PROF OF HISTORY	090 227 010	BMT	TX5276973	22.000	ASST PROF-DEPT OF PHI
090 227 010	BMT	TX5276972	21.000	ASSIT PROF OF BIOLOGY	090 227 010	BMT	TX5276967		ASST PROF OF ANTHROPO
090 227 010	BMT	TX5276968		ASSOCIATE PROF OF SOC	090 227 010	BMT	TX5276969		ASST PROF OF SOCIOLOG
090 227 010	BMT	TX2864982		ASSOC PROF OF FINANCE	090 227 010	AUSTIN.	TX2871504	14.796	RESEARCH ASSISTANT
090 227 010	CLLEGE STA	TX2871593	21.840	RESEARCH ASSISTANT	090 227 010	HOUSTON.	TX2511176	[illegible]	RESEARCH ASSOCIATE
090 227 010	AUSTIN.	TX2511198	15.287	RESEARCH ASSISTANT	090 227 010	SAN ANGELO	TX2702364	16.694	ENGLISH INSTRUCTOR
090 227 010	AUSTIN	TX5472492	14.400	RESEARCH ASSOCIATE	090 227 010	BEAUMONT	TX5472493	30.000	ASST PROFESSOR
090 227 010	PRAIRIE VI	TX5472481	33.600	ASSISTANT PROFESSOR	090 227 010	HOUSTON	TX5384578	25.000	RESEARCH ASSOCIATE
099 167 014	HOUSTON.	TX2871556	18.000	CONSULTANT EDUCATION	099 227 030	AUSTIN	TX5115405		ENGINEER INSTRUCTOR S
100 127 014	BMT	TX5276985	17.000	REFERENCE LIBRARIAN	110 107 010	SAN ANGELO	TX2702370	25.672	ASSISTANT ATTORNEY
110 117 022	DALLAS	TX3223027	45.000	CORPORATION ATTORNEY	110 117 034	DALLAS	TX5472495	35.000	LAWYER, REAL ESTATE

* STATE AND DOT CODE SEQUENCE *

DOT	CITY	ORDER NO	$ / YR	JOB TITLE	DOT	CITY	ORDER NO	$ / YR	JOB TITLE
TEXAS					TEXAS				
131 267 026	AUSTIN	TX5555485		PUBLICATONS WRITER SR	131 267 026	AUSTIN	TX5555481		TECH REPORTS WRITER
131 267 026	AUSTIN	TX5058778		PUBLICATIONS ENGINEER	131 267 026	AUSTIN	TX5115269		PUBLICATION ENGR SPEC
131 267 026	AUSTIN	TX5118990		PUBLICATIONS WRITER	137 267 018	HOUSTON	TX5474906	15.500	TRANSLATOR
137 267 018	HOUSTON.	TX2871579	15.000	TRANSLATOR/TRANSLITER	141 061 018	IRVING	TX5446280	18.000	GENIGRAPHICS ARTIST
142 061 018	HOUSTON.	TX5494082	14.560	CUSTOM GARMENT DESIGN	142 061 026	AUSTIN	TX5115279		INDUSTRIAL DESIGNER S
143 062 026	AUSTIN	TX5555409		PHOTOGRAPHER	153 227 010	SAN ANGELO	TX2702695	21.000	HEAD TRACK COACH
159 067 014	MIDLAND	TX2815151		COMMERCIAL DIRECTOR	160 162 014	HUNTSVILLE	TX3401262	25.392	SR INTERNAL AUDITOR
160 162 014	HUNTSVILLE	TX3401243	19.524	INTERNAL AUDITOR	160 167 010	HOUSTON.	TX2871592	21.600	ACCOUNTANT
160 167 010	HOUSTON.	TX2511193	19.300	ACCOUNTANT	160 267 018	AUSTIN	TX3115268		PRICE EST & BUDGET AD
160 267 018	AUSTIN	TX5117964		PRICE EST & BUDGET	160 267 018	AUSTIN	TX5555468		MAT & PRICE EST BUDGE
161 167 010	AUSTIN	TX5555461		DATA SYS PROG ANALYST	161 167 010	AUSTIN	TX5117965		DATA SYS PROG ANALYST
161 167 010	AUSTIN	TX5117960		DATA SYS PROGRAMMER	162 117 014	DALLAS	TX5474843		CONTRACT ADMINISTRATO
162 117 018	AUSTIN	TX5555492		PROGR PLAN STAFF SPC	162 157 018	AUSTIN	TX5555493		BUYER
162 157 034	AUSTIN	TX5555467	20	MATERIAL MGMT ANALYS	162 157 034	HOUSTON	TX2871563	24.000	PURCHASING AGENT
162 167 022	HOUSTON.	TX2871550	40.000	MANAGER,PROCUREMENT	163 117 014	HOUSTON.	TX2871572	27.602	EXPORT MANAGER
163 117 014	HOUSTON	TX5474826	33.000	IMPORT MANAGER	163 117 014	HOUSTON.	TX2871588	26.000	MANAGER-EXPORT
163 117 018	SAN ANTONI	TX2871541	38.000	GENERAL MANAGER	163 167 018	DALLAS.	TX2871578	35.000	MANAGER,SALES INTERN'
166 167 026	MONAHANS	TX5123621		FACILITY DIRECTOR	166 227 010	AUSTIN	TX5555488		TRAINING COORDINATOR
169 167 030	EDINBURG	TX5550523	18.179	DIRECTOR,DATA PROCESS	169 167 034	NEDERLAND	TX5277006		MANAGER,SERVICE CENTE
182 167 026	SUGARLAND	TX5384818	40.000	CONSTRUCTION DEPT MGR	182 167 026	MIDLAND	TX5741039		SUPERINTEN/ESTIMATOR
183 117 014	EVERMAN.	TX2511117	20.000	MANAGER PRODUCTION	184 167 190	HOUSTON.	TX2871586	24.000	MEASUREMENT SUPERINTE
185 157 010	HOUSTON	TX5472466	25.000	WHOLESALER II	185 167 046	AUSTIN.	TX5494008	15.600	MANAGER FLORAL DIVISI
186 117 014	ORANGE	TX5546973	20.000	CONTROLLER	186 117 014	BOSSE	TX5473421		CONTROLLER
186 117 014	AUSTIN	TX5117918		FINANCIAL OPERNS CONT	186 117 014	HOUSTON.	TX2871568	32.000	CONTROLLER
186 117 078	HOUSTON	TX5474906	32.000	VICEPRES FIN SERVICES	186 167 046	HOUSTON	TX2871539	30.000	PROPERTY MANAGER
187 117 010	HOUSTON	TX5474982	27.699	ADMINISTRATOR,HOSPITA	187 117 010	BMT	TX2864988		BUSINESS MANGER III
187 161 010	DALLAS	TX5584599	36.000	EXECUTIVE CHEF	189 117 034	CORPUS CHR	TX5474839	50.000	VICE PRESIDENT
189 167 010	FORT WORTH	TX5584606	27.040	COMPUTER SOFTWARE CON	195 107 010	ORANGE	TX5549473	14.160	CASEWORKER I
196 223 014	LONGVIEW.	TX5494087	24.960	INSTRUCTOR,PILOT	196 263 014	HOUSTON.	TX2511187	42.000	PILOT,GEODATA ACQUISI
199 167 014	BMT	TX5278221	21.324	NEIGHBORHOOD PLANNER	199 167 014	EDINBURG	TX5528812		BUREAU CHIEF OF PLANN
210 382 010	HOUSTON	TX3161187	8.320	CLK TYPIST/BOOKKEEPER	213 362 010	AUSTIN	TX5117981		DATA PROCESSOR
213 362 010	AUSTIN	TX5116169		DATA PROCESSOR SR	219 362 010	DALLAS	TX5460852	10.400	PRODUCTION CONTROL CL
237 367 038	HOUSTON	TX5161207	14.560	RECEPTIONIST	241 267 050	HOUSTON	TX5163818		TELEPHONE INTERVWER
249 367 046	AUSTIN	TX5555486		TRAINEE TECHNICAL	250 257 010	AUSTIN	TX5116299		SALES REP INSURANCE
274 357 050	ODESSA	TX5123944		TECHNICIAN - THEATER	316 684 010	IRAAN	TX5123613		BUTCHER CERTIFIED
316 684 010	IRAAN	TX2702553		BUTCHER-GROCERY STORE	375 263 014	DALLAS	TX5259495	20.460	APPRENTICE POLICEOFFIC
601 285 022	NAVASOTA	TX5271930		DIE SINKER	601 280 046	STEPHENVIL	TX5051721	17.900	TOOL & DIE MAKER A
625 281 010	WACO	TX5268732		DIESEL MECHANIC	638 261 018	FLOWERMOND	TX5584820	30.000	TECHNICAL SVC ENGINEE
651 482 010	EL PASO	TX5408177		OFFSET PRESS OPER	709 687 054	LEBANON	TX2051118	14.560	ULTRA SONIC TESTER
710 281 026	EL PASO	TX5417677	20.995	INSTRUMENT TECH, JOUR	726 685 010	TEXARKANA	TX2698344	20.256	ELECTRONIC TECHNICIAN
741 684 014	KILLEEN	TX5378875		FOAM GUN SPRAYER	787 682 062	CORPUS	TX5520714	11.440	SAILMAKER
804 281 010	OKLA CITY	TX2188772	22.256	HEAVY STRC SHEET META	819 687 010	SPRINGFIEL	TX2645829	17.600	WELDING INSPECTOR
822 381 022	CARROLLTON	TX5494885	25.376	MAINTAINER,EQUIPMENT	824 261 010	KERRVILLE	TX5111450		JOURNEYMAN ELECTRICIA
827 261 010	KERRVILLE	TX5111529		MAJOR APPLIANCE REPAI	828 281 010	HARLINGEN	TX2968017		NUM CONTROL TECH
828 281 010	AUSTIN	TX5116181		LAB ANALYST RESEARCH	842 381 014	CORPUS	TX5016675		JOURNEY,STUCCO PLASTE
861 381 010	IRVING	TX2820445	10.720	BRICKLAYER	862 381 030	DALLAS.	TX2871591	16.640	PLUMBER
869 664 014	KERRVILLE	TX5111528		DUCT INSTALLER	976 381 018	HOUSTON	TX5471457	10.920	PHOTOGRAPHIC PRINTER

AN EXPLANATION OF THE THE NATIONAL TRAINING INCENTIVES ACT OF 1985

Fundamental weaknesses in the U.S. work force were revealed during the last recession. Incentives to train or retrain workers were virtually non-existent. Many of those displaced from their old jobs were either ill-equipped to enter a new occupation or financially incapable of acquiring new skills. Moreover, employers and workers alike were poorly served by the Employment Service and by the nationwide system of unemployment benefits provided as income assistance. In many cases benefits ran out without facilitating a meaningful transition to gainful employment or to a new occupation.

The intent of this legislation is to provide incentives for worker training, both through employer and individual incentives, to examine the cost, feasibility, and expected benefits of a nationwide job bank system, and to assess the possibility of using non-profit community-based organizations to assist low-skilled individuals in finding work.

Title I of the bill permits employers to deduct from their tax liability 25% of any skills training expenses in excess of the average skills training expenses incurred by the employer over the preceding five-year period. This provision is modeled after the existing 25% R&D tax credit, enacted in 1981 to encourage private research, and is designed to provide a tax incentive for new training programs sponsored, paid for, or conducted by employers.

The employer may apply the tax credit to expenditures for any state or federally registered apprenticeship program, any employer-run on-the-job or classroom training program, any cooperative education, or any other program designated by the Secretary of Labor. The training tax credit conforms to existing carryback and carryforward provisions found in the tax code which apply to the R&D credit.

Title II of the bill is designed to assist structurally unemployed workers by allowing them to use for retraining funds invested in Individual Retirement Accounts (IRAs) or annuities. The bill permits an unemployed individual or one who has received advance notice of layoff to withdraw without the existing 10% interest penalty up to $4,000 for the purpose of financing occupational training.

Any individual who is unemployed, has obtained job counseling within the last year, and meets certain basic requirements under the unemployment compensation law may make withdrawals from IRAs or annuities for training purposes. Those who have received a notice of layoff within six months may also make withdrawals. The individual must first obtain employment counseling from a local employment office before withdrawals can be made; the employment office then certifies in writing that an individual is eligible to make such withdrawals, using criteria established under existing unemployment compensation law.

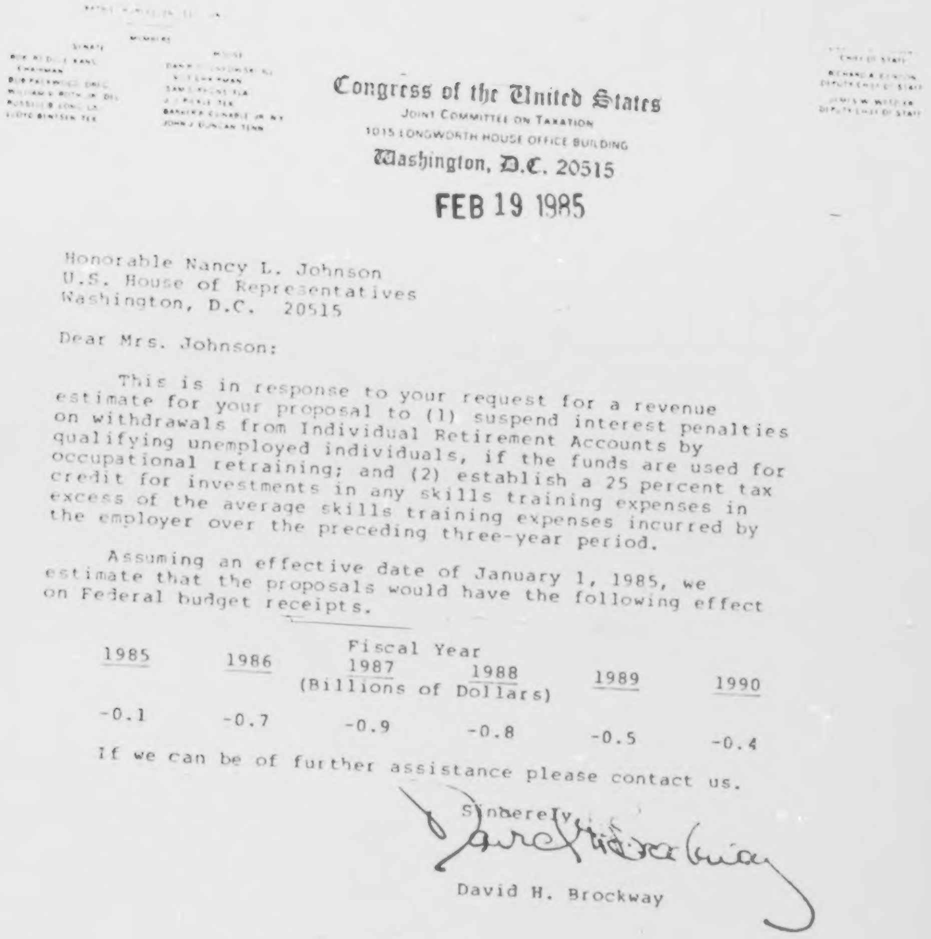
The certificate of eligibility, along with an invoice or other evidence of enrollment from a qualified training institution, is then presented by the individual to the trustee (bank or other financial institution) of the IRA or annuity. The amount needed (up to $4,000) is then issued to the training institution in the form of a voucher and is not taxable. The voucher can be used to pay a variety of expenses associated with the training program, including books, tuition, fees, materials, and special tools or equipment.

Training programs that individuals may pursue under this legislation are in general any programs offered by a qualified institution (an institution of higher education, a postsecondary vocational institution, a proprietary institution of higher education, and those institutions meeting criteria established by the Secretary of Labor) which prepares participants for gainful employment. The statutory definitions of "training program" and "qualified institution" track those in existing law, and anti-discrimination provisions are applied to all qualified institutions and eligible training programs.

Title II also removes a disincentive against retraining by providing that any displaced worker otherwise eligible for unemployment compensation shall not be denied such payment due to participation in a training program.

Title III of the bill directs the Secretary of Labor to report to Congress within one year on the extent to which a nationwide job bank system can be expected to increase employment opportunities in each state, its cost, and its adaptability to existing unemployment services. The Secretary must also assess in the report the feasibility of using nonprofit, privately-operated job-referral services for the referral of individuals to jobs in low-wage industries where little or no skill is a prerequisite for employment rather than using state employment service offices. Title III also authorizes funds to cover administrative expenses incurred through the counseling and certification process; this amount ($37 million) is equivalent to 5% of the current administrative budget for the U.S. Employment Service.

Title IV amends the Job Training Partnership Act to instruct Private Industry Councils (PICs) to make available throughout service delivery areas information regarding training programs. Title IV also provides that, for the purposes of determining eligibility for Pell grants, any amount withdrawn from an IRA or annuity for training purposes as well as any amount received in the form of unemployment compensation shall not be included as family income.



Congress of the United States
Joint Committee on Taxation
1015 Longworth House Office Building
Washington, D.C. 20515

FEB 19 1985

Honorable Nancy L. Johnson
U.S. House of Representatives
Washington, D.C. 20515

Dear Mrs. Johnson:

This is in response to your request for a revenue estimate for your proposal to (1) suspend interest penalties on withdrawals from Individual Retirement Accounts by qualifying unemployed individuals, if the funds are used for occupational retraining; and (2) establish a 25 percent tax credit for investments in any skills training expenses in excess of the average skills training expenses incurred by the employer over the preceding three-year period.

Assuming an effective date of January 1, 1985, we estimate that the proposals would have the following effect on Federal budget receipts.

Fiscal Year					
1985	1986	1987	1988	1989	1990
(Billions of Dollars)					
-0.1	-0.7	-0.9	-0.8	-0.5	-0.4

If we can be of further assistance please contact us.

Sincerely,

David H. Brockway

David H. Brockway

INDIVIDUAL RETIREMENT ACCOUNTS

1983 Returns

$1.00 - 15,000		1,480,532
$15,000 - 50,000		9,094,847
$50,000 - more		3,119,295
	TOTAL	13,694,674

$1.00 - 15,000		1,480,532
$15,000 - 25,000		2,543,478
$25,000 - 50,000		6,551,369
$50,000 - more		3,119,295
	TOTAL	13,694,674

$30,000 and below		5,575,720
$30,000 and up		8,118,954
	TOTAL	13,694,674

$25,000 and below		4,024,010
$25,000 - 50,000		6,551,369
$50,000 - more		3,119,295
	TOTAL	13,694,674

Source: Statistics of Income Bulletin: Department of the Treasury, Internal Revenue Service, Vol. 4, No. 3, Winter 1984-1985, P. 28.

DIGEST OF DRAFT LEGISLATION TO BE PROPOSED BY REPRESENTATIVE NANCY L. JOHNSON OF CONNECTICUT, TO PROVIDE INCENTIVES FOR WORKER TRAINING THROUGH BOTH EMPLOYER AND INDIVIDUAL INITIATIVE AND TO REQUIRE THE SECRETARY OF LABOR TO STUDY THE FEASIBILITY AND COST OF A NATIONAL JOB BANK

The following is a digest of draft legislation which is "to provide incentives for worker training through both employer and individual initiative and to require the Secretary of Labor to study the feasibility and cost of a National Job Bank."

National Training Incentives Act of 1985 - Declares that it is the policy and responsibility of the Federal Government to encourage cooperation between employers and employees to promote training programs which will assist employees, should they be displaced from the work force, in training for a trade or occupation for which present and future employment opportunities exist.

Enumerates congressional findings with respect to the inadequacies of existing employment and training programs, the importance of such programs to the national security and economy, the current funding of such programs, the impact of foreign trade competition on the U.S. economy and job market, and the inadequacies of the unemployment compensation system.

Title I: Amendments to Internal Revenue Code of 1954 Relating to Employee Training - Amends the Internal Revenue Code to establish an employee training credit for employers.

Adds such employee training credit to those credits which are included in the current year business credit for purposes of determining the general business income tax credit for a taxable year. (The Internal Revenue Code provisions for such general business income tax credit permit three-year carrybacks and 15-year carryforwards of unused credits, with specified limitations.)

Makes such employee training credit for any taxable year equal to 25 percent of the excess, if any, of: (1) the qualified training expenses of the taxpayer for such taxable year, over (2) the base period training expenses of such taxpayer. Defines "qualified training expenses" as the aggregate amount of expenses paid or incurred by the taxpayer during the taxable year in connection with the training of employees under approved training programs. Defines "base period training expenses" as the average of the qualified training expenses for each year in the base period. Defines "base period" as the five taxable years of the taxpayer immediately preceding the taxable year for which the determination is being made ("the determination year"). Sets forth transitional rules for the first four determination years beginning after December 31, 1984. Sets minimum base period training expenses by providing that, in the case of any determination year of the taxpayer for which the qualified training expenses exceed 200 percent of the base period training expenses, "50 percent of such qualified training expenses" shall be substituted for "the base period training expenses" in the formula to determine the amount of the credit.

Defines "approved training programs," for purposes of such employee training credit, to include: (1) any apprenticeship program registered or approved by Federal or State agencies; (2) any employer-designed or employer-sponsored training program which meets certain requirements prescribed by the Secretary of Labor (Secretary); (3) any cooperative education; (4) any training program designated by the Secretary which is carried out under the supervision of an institution of higher education; or (5) any other training program approved by the Secretary.

Sets forth special tax rules for the aggregation of qualified training expenses, allocations of such credits, and adjustments to such employee training credit amount for acquisitions and dispositions of a trade or business. Specifies that the employee training credit shall be in addition to any other deduction or credit allowed for the same expenses under the Federal tax law.

Amends the Internal Revenue Code to exempt from any penalty tax early withdrawal from an individual retirement account or annuity (IRA) of a displaced worker if such withdrawals are made to pay training expenses, do not exceed the allowable amount, and are made in accordance with the requirements of this Act. Incorporates provisions of title II of this Act relating to the definition of displaced workers, training expenses, and allowable IRA distributions within the Internal Revenue Code provisions relating to individual retirement accounts and annuities.

Title II: Withdrawals from Individual Retirement Accounts and Annuities for Job Training for Displaced Workers - Entitles a displaced worker to apply to the Secretary of Labor (Secretary) for certification of such individual's status as a displaced worker.

Defines a "displaced worker" as any individual, as of the time of application for a certificate, who has at least 20 quarters of coverage under title II (Old Age, Survivors and Disability Insurance) of the Social Security Act, who has received employment counseling within the past year from an agency approved by the Secretary, and who is in one of the following categories: (1) receiving regular State unemployment compensation; (2) exhausted the right to receive such compensation; (3) unemployed, or received notification of termination of employment within six months, due to permanent closure of a plant or facility; or (4) unemployed for six months or more and with limited opportunity for employment in a similar trade or occupation within a reasonable commuting distance.

Permits displaced workers to withdraw amounts from their individual retirement account or annuity (IRA) to pay the expense (tuition, fees, books, supplies, or required equipment) of an eligible training program. Limits the amounts of such IRA withdrawal to $4,000 per year (with cost-of-living adjustments), minus aggregate amounts distributed for training expense payments in the four immediately preceding taxable years.

Requires withdrawals from an IRA for training expenses to be made only through the use of a voucher issued by the account trustee or insurance company custodian upon presentation to such trustee or custodian by the displaced worker of a displaced worker certificate and an invoice or statement evidencing that such worker has enrolled in an eligible training program. Sets forth requirements for the presentation and redemption of vouchers for payment of job training expenses. Prohibits depositary institutions from assessing any penalty against a displaced worker for early withdrawals from an IRA to pay such training expenses. Permits adjustments in the rate of return on certain investments when IRA funds are withdrawn to pay such training expenses.

Provides that the participation of displaced workers in an eligible training program shall not disqualify such workers for unemployment compensation to which they are otherwise entitled.

Defines "eligible training program" as a training program offered by an by an institution of higher education, a postsecondary vocational institution, a proprietary institution of higher education, or any other institution approved by the Secretary which prepares students for gainful employment in a trade or occupation in which present and future employment opportunities exist. Requires the Secretary to promulgate regulations for: (1) the application of an educational institution for qualification of its training program; and (2) criteria for determining whether such a job training program qualifies as an eligible training program under the terms of this Act. Directs the Secretary, for purposes of determining whether certain job training programs qualify as eligible training programs, to consider any determination relating to such programs made by: (1) the Administrator of Veterans' Affairs or a State approving agency for veterans' educational programs; (2) a private industry council established under the Job Training Partnership Act or other official or group empowered to make determinations under such Act; (3) the Secretary of Education; (4) any State education agency; or (5) a nationally recognized accrediting agency which the Secretary determines to be reliable in evaluating the quality of job training programs. Sets forth nondiscrimination requirements for institutions offering such job training programs.

Requires the Secretary to minimize the amount of paperwork and time necessary to certify any individual as a displaced worker or any training program as an eligible training program.

Title III: State Employment Service Responsibilities Certification and Referrals - Directs the Secretary of Labor to allocate funds to States to reimburse administrative costs of public employment offices which provide certification for displaced workers, labor market and training information, and job search services. Authorizes appropriations for such purpose for FY 1986 and thereafter.

Directs the Secretary to submit a report to the Congress on a nationwide computerized job bank and matching program authorized under the Job Training and Partnership Act.

Title IV: Miscellaneous Provisions - Amends the Job Training Partnership Act to direct the private industry councils established under such Act to make information on job training programs available throughout their service delivery areas. Exempts such councils from limitations on expenditures imposed by such Act in providing such information.

Excludes from the computation of the amount of the expected family contribution to a student for Pell Grant purposes any unemployment compensation received by such student or any IRA distribution used to pay training expenses of such student, provided such student is certified as a displaced worker under the terms of this Act.

National Training Incentives Act

Issues for Discussion

BUDGETARY COSTS

Charge: The National Training Incentives Act will be very costly at a time of huge budget deficits.

Rebuttal: This bill provides two approaches for retraining, neither of which requires direct federal outlays. The first approach, the IRA and annuity provisions, which allow workers to withdraw money from these accounts for their own retraining, builds upon an existing private finance system. The second approach, the 25% tax credit, in contrast with federal training programs which require one dollar in federal outlays for every dollar spent on training, would generate four dollars in private sector training for every dollar in lost federal revenues. These incentives will have no cost to the federal Treasury unless business and workers themselves decide that more money needs to be spent on retraining.

This legislation also responds to the need for U.S. business and industry to compete in a global economy. Without a sufficiently trained work force, America's competitive position will significantly deteriorate, resulting in a lower standard of living for virtually all Americans. Moreover, absent such policies, increased protectionism would likely result, producing higher costs to consumers for imported products.

WHO WILL BENEFIT?

Charge: This legislation will assist only a small minority of workers.

Rebuttal: This legislation is designed to address the problems associated with the training and retraining of all the workforce. It is not intended to replace or duplicate existing programs such as JTPA or Displaced Workers programs, but is intended to stimulate a more realistic, better coordinated, and comprehensive use of resources for training.

The 25% tax credit will help currently employed workers avoid future displacement through increased employer-sponsored retraining programs. Furthermore, the tax credit could be used by small businesses or unprofitable firms because of its carry-forward and carry-back provisions. The IRA and annuity provision provides individuals who are unemployed and collecting unemployment insurance with an increased capability to finance their own retraining without having to divert funds from their own day-to-day income. At the end of 1983, over 13 million individuals held IRA accounts, with over five million of these held by individuals with annual household incomes below $30,000.

TAX SIMPLIFICATION & TAX CREDITS

Charge: Doesn't this proposal fly in the face of efforts to simplify the code?

Rebuttal: This approach is consistent with the Treasury plan for tax neutrality. The Treasury plan continues investment incentives for research and development, and for new plant and equipment, but fails to acknowledge the human element in competitiveness. It extends the current 25% R&D tax credit, and replaces the ACRS with a new depreciation schedule for plant and equipment. By containing the essential human component of competitiveness, our proposal makes the Treasury plan truly neutral.

As budget deficits force Congress to consider trimming various employment programs, Congress must also consider the need to put in place incentives for worker training and retraining. The incentives provided in this legislation are demand-driven, triggered only as employers and employees decide for themselves on the need for retraining. It is critical that Congress implement this preventive approach to worker dislocation in advance of any possible economic downturn.

DOES RETRAINING HELP?

Charge: Those who are faced with unemployment do not readily adapt to training nor do they have the flexibility or resources to undertake retraining on their own.

Rebuttal: Employer financed retraining through tax credits will involve workers who have a demonstrated ability to be trained and who already function effectively in industry. The IRA provision, because it involves employee funds, creates an incentive whereby employees who seek retraining have a greater personal stake in the selection and quality of their retraining.

Moreover, in the 1980s the work force growth rate will be only half as much as it was in the last decade. As a result, today's workers will constitute over 90% of the labor force in 1990. Also by 1990, over half of all U.S. workers will be between the ages of 24 and 44 — the most productive years for workers. This represents a major opportunity to increase productivity if these workers can be adequately trained or retrained.

EMPLOYER PARTICIPATION:

Charge: A corporation and an individual could pay into a joint account to be used by the worker in the event of displacement.

Rebuttal: Under this bill there is nothing to prevent an employer from contributing to an IRA for retraining or retirement. Moreover, under the current IRA mechanism, employers can contribute to an employee's retirement account.

The problem with other approaches, such as an Individual Training Account, is that they require joint employer-employee participation, and that employees seeking such an account would depend upon the willingness of their employers to participate. As a result, the only way to ensure the establishment of a training account would be to mandate employer-employee participation. This would amount to the creation of a new and costly payroll tax at a time when Congress is unable to raise funds to pay the nation's current bills.

EMPLOYER INCENTIVES

Charge: Since an employer can take a deduction for retraining, why is this legislation necessary?

Rebuttal: This bill recognizes that the importance of investment in worker retraining is similar to the importance of investment in R&D and equipment. Specifically, the bill permits employers to deduct a portion of employee training and retraining expenses from federal tax liability. Firms could deduct from their tax liability 25% of training costs above the company's training costs of the previous five years. This differs substantially from a straight-line business-expense deduction, which could still be used with the tax credit, but which fails by itself to differentiate one type of business-expense from another. Moreover, the tax credit will not reward current retraining, but will reward retraining over and above a five-year average.

STATEMENT OF WILLIAM F. CLINGER, JR.

Madam Chairperson, thank you for allowing me to proceed out of order. I will limit my remarks to a few brief observations on H.R. 5159, which I am pleased to report has a bipartisan co-sponsorship list of 36 members.

I would like to compliment you and the Subcommittee for scheduling this hearing today on worker retraining, an issue I am sure we would all agree is of vital importance to our nation. I would also like to compliment Dick Durbin and Shelly Boehlert, and my Wednesday Group colleague, Nancy Johnson, for their important work and leadership on this issue.

As you may know, many of the provisions of H.R. 5159 were orginally developed in a Special Report on Human Capital which was authored by Dr. Pat Choate and released by the House Wednesday Group in July 1983, with 21 members of the Wednesday Group as sponsors.

We are all aware of the need for legislation in this area. In the 1980s the work force growth rate will be only half as much as it was in the last decade. As a result, today's workers will constitute over 90% of the labor force in 1990. Also by 1990, over half of all U.S. workers will be between the ages of 24 and 44 -- the most productive years for workers. This represents a major opportunity to increase productivity if these workers can be adequately trained or retrained.

Briefly, H.R. 5159 is a demand driven, market-based approach, which puts into place government incentives that are triggered only when businesses and workers decide for themselves to finance additional skills training. It builds upon existing systems and resources and links business, government, and individual workers to maximize our human capital investments.

The first prong of the legislation allows displaced workers to finance retraining with money withdrawn, without penalty, from their IRA or annuity accounts. This approach does not call for direct federal outlays of money, but rather ties into an existing finance system which at the end of 1982 reached over 12 million households, many of which are supported by individuals with annual incomes under $30,000.

The second prong of the legislation is a tax credit to businesses which invest in worker retraining. The training credit would be similar to the existing R&D tax credit, and would permit businesses to deduct from their tax liability 25% of training costs above the company's average training costs of the previous five years.

This approach recognizes the importance of investing in worker retraining similar to the importance of investing in R&D and plant and equipment. It differs substantially from a straight-line business expense deduction, which could still be used with the tax credit, but which fails by itself to provide sufficient incentive for business to invest in worker retraining. Moreover, the tax credit will not reward current retraining, but will reward retraining over and above a five-year average, and could be used by small businesses or unprofitable firms because of its carry-forward and carry-back provisions.

For every dollar in lost federal revenues, this approach will generate four dollars in private sector training. It also offsets part of the financial costs to employers when workers trained by a company take their skills to another firm. This should particularly help small businesses.

Let me also mention that this bill provides that the participation of displaced workers in an eligible training program will not disqualify these workers from unemployment compensation to which they are otherwise entitled. As the Committee knows, only thirteen states at present allow a worker in a retraining program to receive unemployment compensation. What we need, Madam Chairperson, is to provide incentive for workers to seek retraining at the earliest possible time, thereby allowing them to acquire new skills and to depart the unemployment rolls. What we do not need is a system which mandates that people wait until their unemployment has run out before they can develop a new skill.

Let me emphasize that this bill is not intended in any way to replace JTPA or other efforts of Congress to assist the disadvantaged, but rather supplements these efforts. JTPA must be left untouched so that we can accurately determine its effectiveness and its worth. But we are talking about a significant problem in America today which may need more than JTPA.

What are the significant merits of H.R. 5159? First, business and workers finance their own retraining, resulting in greater controls on both the appropriateness and quality of the training. Second, our proposal is flexible, because its incentives are not linked to the vicissitudes of the Congressional budgeting process. Lastly, these incentives will have no cost to the federal Treasury unless businesses and workers themselves decide to spend more money on retraining, thereby triggering the legislation's tax incentives.

Before I conclude, let me offer a few words about the Individual Training Account legislation, sponsored by my colleagues from Illinois and New York, Mr. Durbin and Mr. Boehlert, and developed by my good friend and former colleague at the Economic Development Administration, Pat Choate.

As you may or may not know, the House Wednesday Group and the Northeast-Midwest Coalition worked jointly for some time on worker retraining legislation. As you can see, the resulting efforts are quite different. I think it important to share with the Committee the reasons we abandoned the Individual Training Account approach.

One issue is whether the ITA will be voluntary or mandatory. A voluntary approach may not cost the Federal government very much, but will workers and employers, as required by the ITA approach, participate in sufficient numbers to ensure a viable program? I think not. Saving money for retraining, it seems to me, simply will not have a high enough priority when people decide how to allocate their discretionary income. That leaves the mandatory approach, which would guarantee participation, but would require a new and expensive federal payroll tax and would, in effect, socialize the cost of retraining for what may, in the end, be a narrow group of people. As this Committee knows, estimates on the numbers of displaced workers vary from just under 100,000 to over two million.

Further, although H.R. 4832 is described as wholly voluntary, employers who do not participate would continue to be subject to a $14 per employee surcharge to the Federal Unemployment Tax. Employers would also be subject to a tax penalty of $378 per employee if their states failed to participate in the program. Moreover, the annual employer-employee ITA payment of $500 per employee is nearly five times greater than the average unemployment tax per employee, and that does not include the tax loss to the federal government that will result from the ITA's tax incentives.

While both bills have the same objective, and both bills should receive further consideration by this and other Committees, I strongly believe that the National Training Incentives Act provides the proper incentives for employees and employers to meet our nation's retraining needs. H.R. 5159 is not a panecea for the problems faced by displaced workers, but its enactment would be an important first step.

Again, I appreciate the opportunity to testify on this legislation, and look forward to working with the Committee as it continues to explore appropriate federal policy.

AMERICAN SOCIETY FOR TRAINING AND DEVELOPMENT, INC
SUITE 305 / 600 MARYLAND AVENUE S W / WASHINGTON, D C 20024 / PHONE 202 / 484 2390
ASTD

April 27, 1984

Mr. Steven Hofman
Executive Director
The House Wednesday Group
186 HOB Annex #2
Washington, D.C. 20515

Dear Steve:

hanks for meeting with our National Issues Committee. n the Committee deliberations the day following your isit, the consensus was quite positive on H.R. 5159, he National Training Incentives Act. We do have some omments on details that we think would be important to he purposes of the proposed legislation.

irst, we believe that improving the quality and ompetence of the work force is a key factor in national conomic survival and growth in the new world marketplace.

urther, the role of employer-provided education and raining the work force is the most important single factor n the on-going development of a competent work force. Thus, e believe that we need more of it even though it is now he largest element, by far, in work force retraining.

ne significant benefit of the employer tax incentive approach s that the investment in our human capital would necessarily e strongly needs-related because employers would be spending heir own money for what they really need, not for obsolete r irrelevant training.

ssuming the several wrinkles can be ironed out, our rganization will undoubtedly support the legislation actively. think this would be important to the bill since our group epresents the constituency that would be most directly affected -- xcept, of course, the overall work force.

1. We think it important that the employer tax credit be in addition to the present practice of treating training costs as ordinary business expenses. Otherwise, I'm afraid there would not be sufficent incentive for many employers to participate.

2. Regarding the employer tax credit, we strongly suggest that the definition of "training" be changed. Much of the best employee training is not conducted in a "classroom," per se. Sophisticated employee training is often accomplished very efficiently through methodologies such as computer-assisted instruction, labs, workshops, self-directed programs, etc.

The term "supervised on the-job-experience" is likely to lead to trouble, too. Just about all "on-the-job-experience" is supervised so you could have employers reading that as all work qualifies for the tax credit which probably is not what you had in mind. We would suggest a definition of training such as we are using in our research project on data gathering for employer-provided education and training. It is contained in the enclosed memo we are using for a field test on the questionnaire we've just developed.

Unfortunately, as we explained at the meeting, current corporate practices in cost accounting for training leave much to be desired. Many employers have only the sketchiest information about what they spend for employee training, and among those who do, there is little consistency in format.

I have just collected samples of training cost accounting practices from a group of our members and they hardly resemble each other at all. (I'll be glad to show them to you if you like.)

Thus, we suggest that the legislation prescribe the kinds of expenses that would be allowable under the tax credit in some detail. I know that prescriptive details in legislation has its drawbacks, too, but should this legislation be enacted, some direction to the regulation writers would be entirely in order.

We know from experience with the Employee Educational Assistance tax regulations, that regulation interpretation can easily lead to widespread confusion, unintended results and tax court litigation.

To help avoid some of the anticipated problems with allowable costs, we have enclosed a brief classification scheme for training costs. This is based on our previous work in this area and the sample cost "charts of account" we have just reviewed. This might be simplified a bit more for legislative purposes, but we do suggest that the legislation include intent about what kinds of training costs would be allowable.

3. I think our view could well be to support the use of IRA funds that the bill proposes, too, but we would like to see the IRA data you mentioned and are sending along.

I hope this is helpful, and please let us know if we can do anything further.

Thanks again. We do appreciate your initiative in what we see as virtually the first positive Congressional initiative that would directly build a more competent overall work force.

Very truly yours,

Bob Craig

Robert L. Craig
Vice President
Government Affairs

RLC:vh

Enclosure

Mrs. JOHNSON. I am also pleased to recognize the support of Congressman Harold Ford as an original co-sponsor of the National Training Incentives Act that Marcy and I will discuss in some detail right now.

The overriding concern of all of us is human capital in this Nation and how we can better invest in workers and skill development and an adaptability for the future. Our Nation's human capital has been offered programs compartmentalized and succinct without any broad policy to back them up or to integrate them.

Our current national training policy does not enable us to respond to rapid change and does not reach large numbers of people, is not comprehensive. Many Americans today face the anguishing possibility that their skills will become obsolete. I know many of us saw that vividly in the recession of a couple of years ago, that individuals faced the problem of obsolescence, prolonged mid-life unemployment that destroys their accomplishments and destroys their hopes for the future. Although a stronger economy is providing millions of new jobs, many workers remain displaced from their old jobs because they do not possess skills that are relevant to our future.

People, like those that I represent in New Britain, Bristol, and Torrington, Connecticut, certainly have lived with this difficulty of displacement of the pace of change in our society of the need for more flexible and effective and comprehensive training policies. And that is really why I am here with my colleagues at the table here and with you and your subcommittee today.

What we need is an ongoing system that will ensure broad investment in training, coupled with a savings plan with individually-initiated retraining ana can be used as a hedge against unemployment.

In addition, the job training mechanisms we support today and in the years ahead must be programs that anticipate change, that respond quickly to change, and that afford the most relevant training to the broadest possible segment of our population at the least possible cost.

The National Training Incentives Act is designed to achieve these objectives and is distinctly different and takes a different approach from that proposed by my colleagues. And that is why we are here together.

Our legislation would stimulate job training by providing a 25 percent tax credit that would be applied to any employer-paid training expense above the company's average training expenditures of the last 5 years. This training tax credit could be applied to any employer-run, on-the-job, or classroom training program, any State or federally registered apprenticeship program, any cooperative education program, or any other program approved by the Secretary of Labor. This tax credit is much like the existing R&D tax credit which we know through experience has stimulated investment in research and development.

We believe there is every reason to conclude that providing this kind of tax credit for investment in human capital would stimulate that same expansion of investment into this aspect of competitiveness so important to our future.

It is a very efficient mechanism for leveraging job training. For every dollar in lost Federal revenue, this credit would generate 4 dollars in private sector training. Further, while our Nation commits nearly $50 billion each year in tax incentives for plant and equipment modernization and research, we commit less than $1 billion to the important work of developing the skills of our workforce, investing in human capital.

It is this imbalance between the $50 billion for investment in plant and equipment and the $1 billion for investment in people that is part of my concern, a balance that needs to be redressed.

Second, the tax credit gives us the ability to provide a very broad-based stimulus to training and an ongoing one that doesn't need annual appropriations, yearly action by Congress. It is the breadth of this stimulus that would enable small companies as well as large to take advantage of it. It would certainly stimulate training in the small towns that I represent, many of which are under 5,000 and in rather isolated areas. So, the breadth of the 25-percent tax credit is one of its strengths and one of its uniquenesses as well.

Next, the decision to train workers would be made in response to changing economic conditions or market forces so that training is proactive, equipping workers with skills needed for the future. The training dollars are placed in the economy precisely where the new jobs and the new opportunities are growing and emerging.

Finally, we believe that these approaches that we are talking about here today are consistent with the President's plan for tax neutrality. As my colleague, Dick Durbin from Illinois, has enlarged on that, I won't go through it again. But certainly a tax code that encourages research and development, investment in plant and equipment, ought to encourage the investment in human capital that is of equal importance to our competitive position and will mean that the tax code will not favor some companies over others, will not favor those who are equipment-dependent or research-dependent over those who are people- and skill-dependent.

So, if we are looking for a tax code that is neutral in regard to stimulating economic growth in America and supporting development of all sectors of our economy, certainly we want to address the issue of human capital development in the tax reform bill before the Congress.

I would briefly remind you that our bill does have in it an IRA provision that seeks to serve the same purpose as the individual training account does, permitting individuals to have some resources available to them for their own training. I will leave the testimony to speak to you about that in detail.

Other components would address the problem of unemployed people being denied an opportunity to participate in training programs. We would prevent that perverse policy that has been so adhered to in our Nation. Our bill also calls for the Secretary of Labor to study the feasibility and cost of a national job bank.

Administratively, the cost of our bill is extremely low and does not require a whole new bureaucracy. Again, I would reiterate, as did my colleague, that this is not meant to be seen as the national training policy. This is meant to be a component in what we need to develop as a more comprehensive, effective, broad-based stimulus to training, a truly national training policy that will serve us in the future.

[Prepared statement of Hon. Nancy L. Johnson follows:]

PREPARED STATEMENT OF HON. NANCY L. JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

MR. CHAIRMAN:

I AM PLEASED TO BE A PART OF THIS HEARING TODAY AND WANT TO COMMEND YOU FOR DIRECTING THE ATTENTION OF THE SUBCOMMITTEE TO THE ISSUES OF JOB DISPLACEMENT AND RETRAINING. THESE ISSUES ARE NOT JUST MATTERS OF WHETHER OR NOT PEOPLE CAN FIND JOBS OR AVOID BEING LAID OFF. IN ADDITION TO THEIR SOCIAL IMPORTANCE, THEY ARE MATTERS WHICH IMPACT OUR NATION'S ECONOMIC PERFORMANCE AND WORLDWIDE COMPETITIVE POSITION. IN FACT, THE DEGREE OF PROSPERITY WE ATTAIN IN THE YEARS AHEAD WILL DEPEND IN LARGE PART ON HOW HIGHLY SKILLED OUR WORKERS ARE AND HOW QUICKLY THEY CAN ADAPT TO CHANGE.

I ALSO WANT TO COMMEND MY COLLEAGUES, DICK DURBIN AND SHERRY BOEHLERT, AND THE NORTHEAST-MIDWEST COALITION, FOR THEIR LEADERSHIP ON LEGISLATION TO ADDRESS THE CHALLENGE OF OUR RETRAINING NEEDS. I AM A COSPONSOR OF THEIR BILL, THE INDIVIDUAL TRAINING ACCOUNT ACT, AND WILL ACTIVELY SUPPORT ITS CONSIDERATION IN THE MONTHS AHEAD.

I AM DELIGHTED TO HAVE APPEARING WITH ME CONGRESSWOMAN MARCY KAPTUR AND CONGRESSMAN BILL CLINGER. BOTH HAVE GRACIOUSLY AGREED AS ORIGINAL COSPONSORS OF THE LEGISLATION WE ARE DISCUSSING TO SHARE THEIR VIEWS WITH US TODAY. I WOULD ALSO LIKE TO RECOGNIZE THE SUPPORT OF CONGRESSMAN HAROLD FORD AS AN ORIGINAL COSPONSOR AND TO ASK THAT HIS WRITTEN STATEMENT OF SUPPORT BE INCLUDED IN THE RECORD TODAY.

OUR PANEL COMES TO YOU TO TALK ABOUT HUMAN CAPITAL; ABOUT INVESTING IN AMERICAN WORKERS AND CULTIVATING THEIR SKILLS. TODAY

ASK YOU TO KEEP IN MIND THE CONCEPT OF HUMAN CAPITAL AS WE PRESENT TO YOU A PROPOSAL WE HAVE INTRODUCED AS THE NATIONAL TRAINING INCENTIVES ACT.

OUR NATION'S HUMAN CAPITAL HAS BEEN TINKERED WITH OVER TIME BY AN ARRAY OF GOVERNMENT JOB TRAINING PROGRAMS. BUT WE ARE STILL SEEKING SOLUTIONS TODAY TO THE DISPLACED WORKER PROBLEM BECAUSE THE PROGRAMS WE HAVE ENACTED DO NOT RESPOND TO RAPID CHANGE AND DO NOT REACH LARGE NUMBERS OF PEOPLE. IN ADDITION, PROGRAMS SUCH AS THE JOB TRAINING PARTNERSHIP ACT, HOWEVER USEFUL, REQUIRE ANNUAL AUTHORIZATIONS AND APPROPRIATIONS BY CONGRESS. AMERICAN WORKERS CERTAINLY DESERVE MORE THAN THIS APPROACH THE FUNDING FOR WHICH IS MORE THE PRODUCT OF OTHER CONSIDERATIONS THAN OF THE TRAINING NEEDS OF OUR NATION.

MANY AMERICANS TODAY FACE THE ANGUISHING POSSIBILITY THAT THEIR SKILLS WILL BECOME OBSOLETE AND THAT PROLONGED MID-LIFE UNEMPLOYMENT WILL DESTROY THEIR ACCOMPLISHMENTS AND HOPES FOR THE FUTURE. ALTHOUGH A STRONGER ECONOMY IS PROVIDING MILLIONS OF NEW JOBS, MANY WORKERS REMAIN DISPLACED FROM THEIR OLD JOBS BECAUSE THEY POSSESS SKILLS NO LONGER IN DEMAND.

MANY PEOPLE IN TOWNS LIKE NEW BRITAIN, BRISTOL, AND TORRINGTON, CONNECTICUT--TOWNS THAT I REPRESENT--DISCOVERED DURING THE LAST RECESSION THAT SHIFTS IN THE ECONOMY CAN MEAN MAJOR SUFFERING AND IN SOME CASES A SIGNIFICANT REDIRECTION OF LIFESTYLES AND OCCUPATION. I AM SURE THAT MEMBERS OF THE SUBCOMMITTEE HAVE WITNESSED THESE CONDITIONS IN THE TOWNS THEY REPRESENT AS WELL.

WHAT IS NEEDED FOR TODAY'S WORKERS IS NOT THE PATCHWORK, ON-AND-OFF PROGRAMS OF THE PAST, BUT A SIMPLE, ON-GOING SYSTEM THAT WILL ASSURE BROAD INVESTMENT IN TRAINING, COUPLED WITH A SAVINGS PLAN THAT CAN BE USED FOR INDIVIDUALLY-INITIATED RETRAINING AS A HEDGE AGAINST

UNEMPLOYMENT. IN ADDITION, THE JOB TRAINING MECHANISMS WE SUPPORT TODAY AND IN THE YEARS AHEAD MUST BE PROGRAMS THAT ANTICIPATE CHANGES, RESPOND QUICKLY TO THEM, AFFORD THE MOST RELEVANT TRAINING TO THE BROADEST POSSIBLE SEGMENT OF OUR POPULATION AT LEAST POSSIBLE COST.

THE NATIONAL TRAINING INCENTIVES ACT IS DESIGNED TO ACHIEVE THESE OBJECTIVES.

THIS LEGISLATION WOULD STIMULATE NEW INCENTIVES FOR PRIVATE SSECTOR SKILLS TRAINING THROUGH A 25% TAX CREDIT THAT WOULD BE APPLIED TO ANY EMPLOYER-PAID TRAINING EXPENSES ABOVE THE COMPANY'S AVERAGE TRAINING EXPENDITURES OF THE LAST FIVE YEARS. THIS TRAINING TAX CREDIT COULD BE APPLIED TO ANY EMPLOYER-RUN, ON-THE-JOB OR CLASSROOM TRAINING PROGRAM, ANY STATE OR FEDERALLY REGISTERED APPRENTICESHIP PROGRAM, ANY COOPERATIVE EDUCATION, OR ANY OTHER PROGRAM APPROVED BY THE SECRETARY OF LABOR. THIS TAX CREDIT IS MUCH LIKE THE EXISTING 25% CREDIT FOR RESEARCH AND DEVELOPMENT EXPENDITURES, AND, LIKE THE R&D CREDIT, INCLUDES APPROPRIATE CARYYBACK AND CARRYFORWARD PROVISIONS FOR THE BENEFIT OF UNPROFITABLE FIRMS AND NEW COMPANIES.

THE POTENTIAL BENEFITS OF THIS TAX CREDIT CANNOT BE IGNORED. FIRST, WHILE THIS TAX CREDIT WOULD RESULT IN SOME LOST REVENUE, IT IS THE MOST EFFICIENT MECHANISM FOR LEVERAGING JOB TRAINING OPPORTUNITIES. FOR EVERY DOLLAR IN LOST FEDERAL REVENUE, THIS CREDIT WOULD GENERATE FOUR DOLLARS IN PRIVATE SECTOR TRAINING. FURTHER, WHILE OUR NATION COMMITS NEARLY $50 BILLION EACH YEAR IN TAX INCENTIVES FOR PLANT AND EQUIPMENT MODERNIZATION AND RESEARCH, LESS THAN $1 BILLION IS AVAILABLE IN INCENTIVES FOR WORKER TRAINING-

THE HUMAN CAPITAL INVESTMENT THAT IS OFTEN OVERLOOKED.

SECOND, THIS TRAINING WOULD BE BROAD-BASED AND ON-GOING, OCCURRING WITHOUT SPECIFIC YEARLY AUTHORIZATIONS OR APPROPRIATIONS. THIRD, THIS TYPE OF TRAINING WOULD BE FOR THE MOST PART ON-THE-JOB TRAINING PERFORMED BY OR PAID FOR BY PRIVATE INDUSTRY, ENSURING THAT THE TRAINING IS CONDUCTED BY THOSE BEST EQUIPPED TO DO SO AND FUNDED IN PART BY THOSE WHO STAND TO BENEFIT.

FOURTH, DECISIONS TO TRAIN WORKERS WOULD BE MADE IN RESPONSE TO CHANGING ECONOMIC CONDITIONS OR MARKET FORCES, SO THAT TRAINING IS PROACTIVE, EQUIPPING WORKERS WITH SKILLS NEEDED FOR THE FUTURE. FINALLY, AS WORKERS ARE TRAINED BY THEIR EMPLOYERS THEY WILL ACQUIRE ADVANCED SKILLS, CARRYING THESE SKILLS FROM ONE JOB TO THE NEXT AND THEREBY BECOMING LESS LIKELY TO EXPERIENCE UNEMPLOYMENT.

IT WOULD SEEM APPROPRIATE AT THIS POINT TO MENTION THAT THE NATIONAL TRAINING INCENTIVES ACT IS CONSISTENT WITH THE PRESIDENT'S PLAN FOR TAX NEUTRALITY. THE PRESIDENT'S PLAN CONTINUES INVESTMENT INCENTIVES FOR RESEARCH AND DEVELOPMENT, AND FOR PLANT AND EQUIPMENT, BUT FAILS TO ACKNOWLEDGE THE HUMAN SKILL ELEMENT OF COMPETITIVENESS. BY ADDRESSING THE HUMAN COMPONENT SO ESSENTIAL TO COMPETITIVENESS, OUR PROPOSAL REMOVES THE BIAS THAT OTHERWISE EXISTS IN THE PRESIDENT'S PLAN.

WOULD A TAX CREDIT YIELD MORE TRAINING? ACCORDING TO A 1983 NATIONAL SCIENCE FOUNDATION REPORT ON THE R&D CREDIT, "THE TAX CREDIT HAS ENCOURAGED FIRMS TO MAINTAIN GROWTH IN R&D SPENDING DESPITE THE RECESSION."

TO ENHANCE TRAINING OPPORTUNITIES FOR THE UNEMPLOYED, THE NATIONAL TRAINING INCENTIVES ACT WOULD PERMIT UNEMPLOYED INDIVIDUALS

OR THOSE FACING LAYOFF TO WITHDRAW FROM IRA'S, WITHOUT PENALTY OR TAXATION, UP TO $4,000 TO PAY FOR RETRAINING. THIS PROVISION IS DESIGNED TO ASSIST DISPLACED WORKERS AND THOSE INDIVIDUALS WHO BELIEVE THEY WILL NEED NEW SKILLS TO SECURE EMPLOYMENT.

THE FIRST REACTION OF MANY TO THIS PARTICULAR PROVISION IS THAT ONLY THE RICH HAVE IRA'S AND THEREFORE ONLY THE RICH WILL BE AFFECTED BY THIS CHANGE, WHO WOULD NOT NEED TO TAKE ADVANTAGE OF IT ANYWAY. BUT IRS DATA SHOW THAT, OF THE 12 MILLION HOUSEHOLDS WHO CURRENTLY HOLD IRA'S, OVER 5 MILLION EARN ANNUAL HOUSEHOLD INCOMES UNDER $30,000, AND OVER 8 MILLION EARN ANNUAL HOUSEHOLD INCOMES BETWEEN $15,000 AND $50,000. THIS RANGE OF INCOME IS CLEARLY WITHIN THE EARNINGS OF AN AVERAGE AMERICAN FAMILY, AND COULD EASILY REPRESENT VIRTUALLY ANY OCCUPATION, INCLUDING ASSEMBLY WORKERS, STEELWORKERS, AND OTHER INDIVIDUALS EMPLOYED IN MANUFACTURING AND SERVICES.

OTHERS MAINTAIN THAT THIS PROVISION WOULD VIOLATE THE INTENT OF CONGRESS IN ESTABLISHING IRA'S FOR RETIREMENT ONLY; THAT PERMITTING WITHDRAWALS FROM IRA'S FOR RETRAINING WOULD OPEN THEM UP FOR OTHER PURPOSES. BUT THIS VIEW IGNORES THE FACT THAT IN MANY CASES A SECURE RETIREMENT WILL DEPEND NOT SO MUCH ON AN IRA BUT ON AN UNINTERRUPTED AND LENGTHY PERIOD OF GAINFUL EMPLOYMENT. RETRAINING IS TODAY AND WILL LIKELY BE IN THE FUTURE CRUCIAL TO SUSTAINING EMPLOYMENT AND REALIZING THE TYPE OF RETIREMENT THAT MANY AMERICANS DESIRE.

THE SIGNIFICANCE OF IRA'S FOR THE NEXT DECADE LIES IN THEIR ABILITY TO STIMULATE GREATER INDIVIDUAL INITIATIVE IN PROVIDING FOR ONE'S OWN FINANCIAL SECURITY.

OTHER COMPONENTS OF THE NATIONAL TRAINING INCENTIVES ACT I WOULD LIKE TO EMPHASIZE ARE THE PROVISION TO REMOVE THE DISINCENTIVE AGAINST RETRAINING BY PROVIDING THAT ANY DISPLACED WORKER OTHERWISE ELIGIBLE FOR UNEMPLOYMENT WILL NOT BE DENIED SUCH PAYMENT DUE TO PARTICIPATION IN A TRAINING PROGRAM. aLSO, THE BILL CALLS FOR THE SECRETARY OF LABOR TO STUDY THE FEASIBILITY AND COST OF A NATIONAL JOB BANK.

THE NATIONAL TRAINING INCENTIVES ACT NEITHER PROPOSES NOR REQUIRES ANY NEW COMPLEX DELIVERY MECHANISM, NOR DOES IT CONTEMPLATE ANY ADMINISTRATIVE EXPENSES OR COORDINATION AMONG FEDERAL, STATE, AND LOCAL GOVERNMENT. INSTEAD, IT PUTS IN PLACE BOTH INDIVIDUAL AND EMPLOYER INCENTIVES THAT ARE USED ONLY WHEN IT IS IN THE INTEREST OF WORKERS AND EMPLOYERS TO SEEK RETRAINING.

SUPPORTERS OF THIS BILL REALIZE IT WILL NOT HELP EVERYONE. IN FACT, THIS LEGISLATION IS LIKELY TO BE JUST ONE OF THE SEVERAL COPMPONENTS OF OUR NATIONAL TRAINING SYSTEM THAT WILL BE NEEDED TO MEET THE JOB TRAINING CHALLENGE OF THE NEXT DECADE. PROGRAMS SUCH AS THE JOB TRAINING PARTNERSHIP ACT MUST BE SUSTAINED AND STRENGTHENED, AND WE MUST CONSTANTLY BE SEARCHING FOR NEW WAYS TO ENHANCE TRAINING AND EMPLOYMENT OPPORTUNITIES IN THE DECADE OF CHANGE THAT LIES AHEAD.

I WOULD LIKE TO END MY STATEMENT BY SALUTING THE CHAIR AND THE MEMBERS OF THE SUBCOMMITTEE FOR BRINGING THESE ISSUES TO PUBLIC ATTENTION TODAY. REPRESENTATIVES KAPTUR, CLINGER, AND I LOOK FORWARD TO ANSWERING YOUR QUESTIONS AND TO WORKING WITH YOU ON ANY FUTURE CONSIDERATION OF THIS BILL.

Thank you very much for having this hearing, for allowing us to be a part of it. I would like to yield to my colleague, Marcy Kaptur, from Ohio.

Mr. **Martinez**. Congresswoman Marcy Kaptur.

Ms. **Kaptur**. Thank you, Chairman Martinez and members of the subcommittee, Mr. Gunderson and Mr. Hayes. I would like to thank you for allowing me to testify along with our colleagues here this morning, Nancy Johnson, Dirk Durbin, and Sherry Boehlert, on the importance of new ideas at the national level for effective job retraining.

As a co-sponsor of both H.R. 26 and H.R. 1219, I wish to share with you my belief that a series of actions must be taken to address the growing need for retraining in our country at the same time as we take constructive action on the economic front to ensure a healthy climate for further job creation in America. This committee is very aware, I know, of the growing problem is dislocated workers, a crisis that has caused tragic hardship for millions of American workers and their families and has resulted in a needless waste of productive lives.

As our economy goes through inevitable structural change, a large group of our workers will suffer consequences of enormous proportion. Recession, increased penetration from imports, the shift away from our heavy industries toward high technology and other new sunrise industries, and the shift to a service-oriented economy have meant lost opportunities and lost jobs, millions of lost jobs.

The most extensive study done by our Government to date on economic dislocation shows that over five million experienced workers permanently lost their jobs in the last 5 years, of that number, over 265,000 in my home State of Ohio. Forty percent, nearly half, of these dislocated workers were still jobless when interviewed in 1984, even though the remaining 60 percent had managed to find some kind of new job, many suffered a substantial decline in wages and, of course, in living standards. The harsh reality for many of the dislocated workers in Ohio and throughout the country is that, if they lose their job in an automobile plant or a manufacturing facility, they are much more likely to find their next job at a McDonald's or a K-Mart at lower wage rather than in a high-tech industry.

What are we going to do and what are we doing to address the needs of this large share of our population? In my opinion, not nearly enough.

Our existing employment and training programs, which you have been so instrumental in developing in this committee, primarily focus on the economically and culturally disadvantaged, approximately 11 percent of our workforce. And we ignore the vast number of other workers who require retraining and reeducation to keep pace with the demands of their jobs. The pace of economic and technological change is quickening. If our Nation is to be prepared for the economic challenges of the next decade and beyond, we must take action now to build a workforce that can adapt quickly and efficiently to change and therefore can compete and prosper.

As we direct our economic planning to the year 2000, we must bear in mind that today's workers will still constitute over 90 percent of the workforce in 1990 and over 75 percent of our workforce in the year 2000. It should be clear. America is going to make it or break it in the next 15 years with the labor force it has right now.

If we can't find a way to make full use of the human potential that exists in our manufacturing industries today, our country is going to be in trouble. Fortunately, the Congress has focused on this critical need and is currently examining a number of new ideas including individual training accounts and modified individual retirement accounts as a means of retraining our workforce. There is no single one answer to this complicated challenge.

I applaud these efforts of my colleagues, Dick Durbin, Sherry Boehlert, and Nancy Johnson, who have sponsored H.R. 26 and H.R. 1219. What they have done is realized that investment in our people is vital to our long-term economic growth, as is investment in capital and technology.

At the present time, our reinvestment in our human capital is woefully inadequate. In fiscal year 1982 the value of Government tax incentives for business investment was $45 billion. This figure is more than 70 times greater than the value of tax incentives for worker retraining, which was a meager $620 million, 70 times greater in capital and equipment than in people.

In 1981, firms invested an average of only $300 per worker for retraining, compared to over $3,600 per worker for new plant and equipment. I want to repeat that: $300 was invested per worker at the same time as industry in our country invested $3,600 for capital.

Both H.R. 26 and H.R. 1219 set mechanisms in place which allow for the gradual and orderly transition from one phase of our economic development to another, with minimal social costs of industrial dislocation and transformation. H.R. 26, which I will not detail because Dick Durbin and Sherry Boehlert did it so well, the national Individual Training Account would address the American worker's need for adequate retraining. I think for many people in the workplace, especially younger workers now, it provides a real option to a fifty-fifty matching contribution made by all non-self-employed workers and their employers up to $4,000.

If the worker is displaced, the entire $4,000 ITA plus accumulated interest would be available tax-free in the form of vouchers that could be used for retraining and defraying relocation expenses. The choice in location would be left to the worker, as was the principle of the very successful G.I. bill. The ITA offers a flexible approach to the retraining of displaced workers.

H.R. 1219, which I am pleased to co-sponsor with Nancy Johnson, modifies the very successful IRA system. At the end of 1983 over 13 million individuals in our country held IRA accounts, with over 5 million of these held by persons who earned under $30,000 a year. H.R. 1219 would assist structurally unemployed workers by allowing them to use their individual retirement account or annuities for retraining. The bill would permit an unemployed individual or one who has received advanced notice of layoff to withdraw up to $4,000 without the existing 10-percent penalty for the purpose of financing occupational training.

It is important to note that this bill would provide that the participation of displaced workers in an eligible training program would not disquality those workers from unemployment compensation to which they are otherwise entitled. A program which provides incentive for workers to seek retraining at the earliest possible time is needed, thereby allowing them to acquire new skills and to regain hope for a future of renewed opportunity rather than sitting at home and worrying about that future.

Further, H.R. 1219 would permit employers to deduct 25 percent of any retraining expense in excess of the average skills training expense incurred by the employer over the preceding 5-year period. This provision is designed to provide a tax incentive for new programs sponsored, paid for, or conducted by employers.

As I conclude, I would like to stress something I believe to be important. When we read the Bureau of Labor Statistics report that says that anywhere from 5 to 11.5 million working men and women have been displaced in the last 5 years, I say we cannot allow these workers to lose hope.

Mr. Chairman and members of the committee, I want to thank my colleagues this morning for their real leadership on this important national issue. I urge you to take favorable action in the area of job retraining.

I strongly recommend that H.R. 26 and 1219 be a part of your recommended response to this national need for new ideas on the front of job training.

Thank you very much.

[Prepared statement of Hon. Marcy Kaptur follows:]

PREPARED STATEMENT OF HON. MARCY KAPTUR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I WOULD LIKE TO THANK YOU FOR ALLOWING ME TO TESTIFY BEFORE YOU THIS MORNING ON THE IMPORTANCE OF A NATIONAL RESPONSE TO THE NEED FOR EFFECTIVE JOB RETRAINING PROGRAMS. I ALSO WELCOME THIS OPPORTUNITY TO COMMENT ON H.R. 26 AND H.R. 1219. AS A COSPONSOR OF BOTH OF THESE PIECES OF COMPLEMENTARY LEGISLATION I WISH TO SHARE WITH YOU MY BELIEF THAT ACTION MUST BE TAKEN TO ADDRESS THE GROWING NEED FOR RETRAINING.

I AM SURE THAT THIS COMMITTEE IS VERY AWARE OF THE GROWING PROBLEM OF DISLOCATED WORKERS, A CRISIS THAT HAS CAUSED TRAGIC HARDSHIP FOR MILLIONS OF AMERICAN WORKERS AND THEIR FAMILIES, AND HAS RESULTED IN A NEEDLESS WASTE OF PRODUCTIVE LIVES. AS OUR ECONOMY GOES THROUGH STRUCTURAL CHANGE, A LARGE GROUP OF OUR WORKERS WILL SUFFER CONSEQUENCES OF ENORMOUS PROPORTIONS. RECESSIONS, INCREASED PENETRATION OF IMPORTS, THE SHIFT AWAY FROM OUR HEAVY INDUSTRIES TOWARDS HIGH-TECHNOLOGY AND OTHER NEW "SUNRISE" INDUSTRIES, AND THE SHIFT TO A SERVICE-ORIENTED ECONOMY HAVE MEANT LOST OPPORTUNITIES AND LOST JOBS. MILLIONS OF LOST JOBS. THE MOST EXTENSIVE STUDY DONE BY THE GOVERNMENT TO DATE ON ECONOMIC DISLOCATION SHOWS THAT OVER 5 MILLION EXPERIENCED WORKERS PERMANENTLY LOST THEIR JOBS IN THE LAST FIVE YEARS,OVER 265,000 IN MY HOME STATE OF OHIO. TWO-FIFTHS OF THESE DISLOCATED WORKERS WERE STILL JOBLESS WHEN INTERVIEWED IN 1984, AND EVEN THOUGH THE REMAINING 60% HAD MANAGED TO FIND SOME KIND OF NEW JOB, MANY SUFFERED A SUBSTANTIAL DECLINE IN LIVING STANDARDS. THE HARSH REALITY FOR MANY OF THE DISLOCATED WORKERS IN OHIO AND THROUGHOUT THE COUNTRY IS THAT IF THEY LOSE THEIR JOB IN AN AUTOMOBILE PLANT OR A MANUFACTURING FACILITY THEY ARE MUCH MORE LIKELY TO FIND THEIR NEXT JOB AT MCDONALDS OR K-MART RATHER THAN IN A HIGH-TECH INDUSTRY. WHAT ARE WE DOING TO ADDRESS THE NEEDS OF THESE PEOPLE? NOT ENOUGH.

OUR EXISTING EMPLOYMENT AND TRAINING PROGRAMS FOCUS PRIMARILY ON THE ECONOMICALLY AND CULTURALLY DISADVANTAGED - APPROXIMATELY 11 PERCENT OF THE WORK FORCE -

AND IGNORE THE VAST NUMBER OF OTHER WORKERS WHO REQUIRE RETRAINING AND RE-EDUCATION TO KEEP PACE WITH THE DEMANDS OF THEIR JOBS. THE PACE OF ECONOMIC AND TECHNOLOGICAL CHANGE IS QUICKENING. IF OUR NATION IS TO BE PREPARED FOR THE ECONOMIC CHALLENGES OF THE NEXT TEN AND TWENTY YEARS, WE MUST TAKE ACTION NOW TO BUILD A WORK FORCE THAT CAN ADAPT QUICKLY AND EFFICIENTLY TO CHANGE, AND THEREFORE CAN COMPETE AND PROSPER. OUR GREATEST RESOURCE IS, AND ALWAYS HAS BEEN, THE TALENTS OF OUR PEOPLE. AS WE DIRECT OUR ECONOMIC PLANNING TO YEAR 2000, WE MUST BEAR IN MIND THAT TODAY'S WORKERS WILL STILL CONSTITUTE OVER 90% OF THE WORK FORCE IN 1990 AND OVER 75% OF THE WORK FORCE IN THE YEAR 2000. IT SHOULD BE CLEAR: AMERICA IS GOING TO MAKE IT OR BREAK IT IN THE NEXT FIFTEEN YEARS WITH THE LABOR FORCE IT HAS RIGHT NOW. IF WE CAN'T FIND A WAY TO MAKE FULL USE OF THE HUMAN POTENTIAL THAT EXISTS IN OUR MANUFACTURING INDUSTRIES TODAY, WE ARE GOING TO BE IN TROUBLE.

FORTUNATELY, THE CONGRESS HAS FOCUSED ON THIS CRITICAL NEED AND IS CURRENTLY EXAMINING A NUMBER OF NEW IDEAS INCLUDING INDIVIDUAL TRAINING ACCOUNTS AND MODIFIED INDIVIDUAL RETIREMENT ACCOUNTS AS A MEANS OF RETRAINING OUR WORKFORCE. I APPLAUD THIS EFFORT AND COMMEND THE EFFORTS OF MY COLLEAGUES WHO HAVE SPONSORED H.R. 26 AND H.R. 1219. WHAT THEY HAVE DONE IS REALIZE THAT INVESTMENT IN OUR PEOPLE IS AS VITAL TO OUR LONG-TERM ECONOMIC GROWTH AS IS INVESTMENT IN CAPITAL AND TECHNOLOGY. AT THE PRESENT TIME, OUR LEVEL OF REINVESTMENT IN OUR "HUMAN CAPITAL" IS WOEFULLY INADEQUATE. IN FISCAL YEAR 1982 THE VALUE OF GOVERNMENT TAX INCENTIVES FOR BUSINESS INVESTMENT WAS $45 BILLION; THIS FIGURE IS MORE THAN 70 TIMES GREATER THAN THE VALUE OF TAX INCENTIVES FOR WORKER TRAINING, WHICH WAS A MEAGER $620 MILLION. IN 1981, FIRMS INVESTED AN AVERAGE OF ONLY $300 PER WORKER FOR RETRAINING COMPARED TO OVER $3600 PER WORKER FOR NEW PLANT AND EQUIPMENT. BOTH H.R. 26 AND H.R. 1219 SET MECHANISMS IN PLACE WHICH ALLOW FOR THE GRADUAL AND ORDERLY TRANSITION FROM ONE PHASE OF OUR ECONOMIC DEVELOPMENT TO ANOTHER WITH MINIMAL SOCIAL COSTS OF INDUSTRIAL DISLOCATION AND TRANSFORMATION.

H.R. 26, THE NATIONAL INDIVIDUAL TRAINING ACCOUNT ACT, WOULD ADDRESS THE AMERICAN WORKER'S NEED FOR ADEQUATE RETRAINING. ITA'S WOULD FUNCTION ACCORDING TO THE SAME PRINCIPLES THAT HAVE GUIDED TWO OTHER SUCCESSFUL GOVERNMENT INITIATIVES - THE GI BILL AND THE INDIVIDUAL RETIREMENT ACCOUNT. GENERALLY, ITA WOULD BE FINANCED THROUGH A 50-50 MATCHING CONTRIBUTION MADE BY ALL NON-SELF-EMPLOYED WORKERS AND THEIR EMPLOYERS THE TOTAL COLLECTED FROM EACH WORKER AND EACH EMPLOYER FOR AN EMPLOYEES' ITA WOULD BE LIMITED TO $2000, PRODUCING A $4000 INDIVIDUAL FUND. ONCE THE $4000 WAS COLLECTED, WORKER AND EMPLOYER CONTRIBUTIONS WOULD CEASE. AT RETIREMENT, THE WORKER WOULD BE ENTITLED TO WITHDRAW THE FUNDS THAT HE OR SHE HAD CONTRIBUTED, PLUS ACCUMULATED INTEREST. IF THE WORKER IS DISPLACED, THE ENTIRE $4000 ITA, PLUS ACCUMULATED INTEREST, WOULD BE AVAILABLE, TAX FREE, IN THE FORM OF VOUCHERS THAT COULD BE USED FOR RETRAINING AND DEFRAYING RELOCATION EXPENSES. THE CHOICE AND LOCATION WOULD BE LEFT TO THE WORKER, AS WAS THE PRINCIPLE OF THE VERY SUCCESSFUL GI BILL. THE ITA OFFERS A FLEXIBLE APPROACH TO THE RETRAINING OF DISPLACED WORKERS. ITS GREATEST STRENGTH IS THAT IS IS BASED ON A COMBINATION OF PERSONAL INITIATIVE, LIMITED GOVERNMENT INVOLVEMENT AND THE SAME TYPE OF INDIVIDUAL CHOICE THAT HAS BEEN SUCCESSFUL IN THE GI BILL.

H.R. 1219 MODIFIES THE VERY SUCCESFUL IRA SYSTEM. AT THE END OF 1983, OVER 13 MILLION INDIVIDUALS HELD IRA ACCOUNTS WITH OVER 5 MILLION OF THESE HELD BY INDIVIDUALS WITH ANNUAL HOUSEHOLD INCOMES BELOW $30,000. H.R. 1219 WOULD ASSIST STRUCTURALLY UNEMPLOYED WORKERS BY ALLOWING THEM TO USE INDIVIDUAL RETIREMENT ACCOUNT OR ANNUITIES FOR RETRAINING. THE BILL WOULD PERMIT AN UNEMPLOYED INDIVIDUAL, OR ONE WHO HAS RECEIVED ADVANCED NOTICE OF LAYOFF, TO WITHDRAW UP TO $4000, WITHOUT THE EXISTING 10% PENALTY, FOR THE PURPOSE OF FINANCING OCCUPATIONAL TRAINING. IT IS IMPORTANT TO NOTE THAT THIS BILL WOULD PROVIDE THAT THE PARTICIPATION OF DISPLACED WORKERS IN AN ELIGIBLE TRAINING PROGRAM WOULD NOT DISQUALIFY THOSE WORKERS FROM UNEMPLOYMENT COMPENSATION TO WHICH THEY ARE OTHERWISE ENTITLED. A PROGRAM WHICH

PROVIDES INCENTIVE FOR WORKERS TO SEEK RETRAINING AT THE EARLIEST POSSIBLE TIME IS NEEDED, THEREBY ALLOWING THEM TO ACQUIRE NEW SKILLS AND TO REGAIN HOPE FOR A FUTURE OF RENEWED OPPORTUNITY. H.R. 1219 WOULD DO A GREAT DEAL TO ACCOMPLISH THIS GOAL. FURTHER, H.R. 1219 WOULD PERMIT EMPLOYERS TO DEDUCT 25% OF ANY RETRAINING EXPENSE IN EXCESS OF THE AVERAGE SKILLS TRAINING EXPENSE INCURRED BY THE EMPLOYER OVER THE PRECEDING FIVE YEAR PERIOD. THIS PROVISION IS DESIGNED TO PROVIDE A TAX INCENTIVE FOR NEW PROGRAMS SPONSORED, PAID FOR, OR CONDUCTED BY EMPLOYERS.

BEFORE I CONCLUDE, I WOULD LIKE TO STRESS SOMETHING THAT I BELIEVE TO BE IMPORTANT. WHEN WE READ THE BUREAU OF LABOR STATISTICS REPORT THAT SAYS THAT ANYWHERE FROM 5 MILLION TO 11.5 MILLION WORKING MEN AND WOMEN HAVE BEEN DISPLACED IN THE LAST FIVE YEARS, WE MUST NOT FORGET THAT THESE ARE WORKING PEOPLE WITH FAMILIES THAT ARE LOSING GROUND IN AN ERA WHEN LIFE FOR MANY AMERICANS IS IMPROVING. FOR THESE PEOPLE, THE LOSS OF A JOB MEANS NOT ONLY THE LOSS OF A PAYCHECK, BUT THE LOSS OF A WAY OF LIFE. WE CANNOT ALLOW THESE WORKERS TO LOSE HOPE. H.R. 26 AND H.R. 1219 ARE MECHANISMS TO INSURE THAT THESE DISPLACED WORKERS HAVE THE MEANS TO ADJUST TO OUR CHANGING ECONOMY, AND THEREFORE THE HOPE NEEDED TO FACE THE FUTURE. OUR WORKERS AND OUR NATION WILL BENEFIT FROM THE TYPE OF RETRAINING MECHANISM THAT THESE BILLS WOULD BUILD INTO OUR ECONOMY. THE RESULT WOULD BE A NATIONAL ECONOMY THAT IS STRONG AND FLEXIBLE ENOUGH TO GROW AND EXPAND THROUGH THE FULL UTILIZATION OF ITS GREATEST ASSET - ITS "HUMAN CAPITAL".

AGAIN, MR.CHAIRMAN AND MEMBERS OF THE COMMITTEE, I THANK YOU FOR THIS OPPORTUNITY TO TESTIFY BEFORE YOU THIS MORNING. I URGE YOU TO TAKE FAVORABLE ACTION IN THE AREA OF JOB RETRAINING AND I RECOMMEND STRONGLY THAT H.R. 26 AND H.R. 1219 BE A PART OF YOUR RECOMMENDED RESPONSE TO THIS NATIONAL NEED.

Mr. **Martinez.** Thank you, Congresswoman Kaptur. I am going to start my first question with you.

At the end of your statement, you were talking about the employers being able to get a tax deduction for the cost of training. Is this in order to retrain their employees into other kinds of employment within the company?

Ms. **Kaptur.** I think, first of all, you have to take a look at what their rolling average was for the last 5 years. We want to reward behavior beyond the normal. And I think that our primary focus would be on those people who are outside the workforce, but I would be very pleased, and I am sure my colleague Nancy Johnson would be, to not force people to continue to work with skills that are not up to par for what is needed. It would permit them to reinvest in those workers and those workers to reinvest in themselves. So, it could do both.

Mr. **Martinez.** Congresswoman Johnson.

Mrs. **Johnson.** I would just like to comment. The development tax credit has been a rolling average of 3 years. We chose a rolling average of 5 years because companies don't make the dimensions of investment in training as frequently in the training area as they do in the research area. But we are trying to stimulate reward for expansion of investment rather than to reward current investment.

I feel very strongly that we need to stimulate upgrading of training. That is part of responding to change. That is part of creating the dynamic and the flexibility that we need.

I have a welfare reform bill that is basically education and training to meet the kinds of problems that Representative Hayes has so clearly in his district and that each of us face. This would build on that. You get somebody into the workforce in an entry-level job from the welfare rolls, and then the employer really needs a year later to also have some support in providing the kinds of job expansion training that is so important to advancement.

Ms. **Kaptur.** Will the gentlelady yield?

I wanted to say, Mr. Chairman, yesterday I was at a hearing in Lorraine, Ohio. One of the purposes of this hearing was to talk about the Trade Adjustment Assistance Act and what its future would be as we look toward reauthorization later this year. We had witnesses who directed the employment programs of Ohio, Michigan, and Minnesota. One of the points they made, we said, if you could dream about the future and you could tell the Congress of the United States any one thing, what would it be? And they said, please don't wait for the workers to become totally useless in the marketplace, get thrown on the unemployment lines. Let's get them while they are in the workplace and upgrade the skills while we have that opportunity. Don't put us, who work in these employment agencies at the State and local levels in the position of having people whose skills are so badly outdated that it takes much more money and more effort on the part of the Government and private companies to keep them current. So, they said, you must find a better way to intervene more quickly. And I think this bill does that very well.

Mr. **Martinez.** Thank you. The thing is then that your bill doesn't really just focus on retraining, but it also focuses on giving employers incentive to upgrade people from one job status to another.

Mrs. JOHNSON. And I think it is important to realize that our tax credit for machinery and equipment doesn't give companies tax credits only for buying new machinery where they had not but also for replacing outmoded machinery with more productive machinery. That is really what we are trying to do in terms of investment in human capital.

Mr. MARTINEZ. I like it.

Congresswoman Johnson, let me ask you this. Most blue collar workers really—and maybe that's not a true statement, do not have IRAs. That's why I feel that Durbin's bill is so important. These particular people who invest in IRAs are people who have money in their budget. So, you really are only going to cover a certain segment, isn't that true?

Mrs. JOHNSON. Well, it certainly is true that the tax credit and the IRA or the ITA have different purposes and are different components of a whole national training policy.

Mr. MARTINEZ. But it would make it complete.

Mrs. JOHNSON. Yes, absolutely. Well, I think you need those, too. I think you need the Job Training Partnership Act, and I think you need things like my welfare reform bill that will bring more of the really unemployed and hard-to-employ people into the system.

But in terms of the IRA, the 1983 statistics show that, of the 13 million with IRAs, over 5 million are people below the $25,000 income. About 6.5 million are between $25,000 and $50,000 income, below 25,000 or up to 50,000. I think the current statistics will show enormous growth among those income groups. Nonetheless, there is a problem with—there is a difference between getting people to help themselves with training and their ability to do so and those below that level who have no ability to participate. And that's part of the purpose of the tax credit, to reach those people who have no ability to save.

Mr. MARTINEZ. I have one last question. Is it clear in the bills that a person could sign up for your program and still be able to withdraw that money and use, let's say, instead of $4,000, $8,000 for retraining?

Mrs. JOHNSON. I think we have to cap the total amount that was available to them, as now the Government is looking at, the 401k investment and IRA investments in the same category. But certainly one of the strengths of this panel here is that none of the approaches are contradictory. They are different. Together, they provide enormous flexibility. There will be some companies where the company is unable to invest in an ITA, as well as the employees. On the other hand, some of those employees might have an IRA. So, there are different avenues to the same goal.

Mr. MARTINEZ. Dick?

Mr. DURBIN. Mr. Chairman, let me add that I think there is one other aspect that ought to be mentioned here. I was not in Congress when the Individual Retirement Account was created, but I assume that it was created for at least two purposes: to allow people to provide for some sort of a security in their retirement that they would save for during their peak earning years; but second and maybe indirectly, that we would encourage people in

America to save more money. This is probably one of the more underlying weaknesses of our economy in comparison to other industrialized nations.

If you look at one of the reasons why we have an overvalued dollar and one of the reasons why we attract so much foreign capital, it is not only the deficit but the fact that Americans, by and large, are consumers rather than savers. With both Congresswoman Johnson's approach and the ITA approach, we are really trying to improve that situation in terms of national savings, to have individual workers save more money and to do it for good purposes, either for retirement or retraining.

I think your question is a good one. I think when it comes time, and I hope it does come time, to mark up these two bills in committee, we can find ways of making them entirely consistent within the two bills to make certain that we do meet those stated goals.

Mr. MARTINEZ. Thank you, Congressman Durbin.

I am going to have to leave, because I have to attend a Rules Committee meeting. I am going to turn the chair over to Mr. Hayes, my good friend and colleague. I do have some other questions. I will be communicating with you on those.

At this time, before I leave, I would like to turn questions over to Mr. Gunderson.

Mr. GUNDERSON. Thank you, Mr. Chairman.

I want to begin by commending all of you for coming up with some new creative initiatives. I think too often we look at the past, and the programs did not necessarily work.

The big question, of course, and you all talked about tax reform and tax incentives, et cetera, what do you see happening with your bills in the Ways and Means Committee? Are we looking at an effort in this committee that dies in Ways and Means? Or is there some kind of commitment and interest in that committee? If so, is it going to be a part of the tax reform package? I think that all becomes very instrumental. Any comments?

Mrs. JOHNSON. I, for one, am developing a letter that will go to the Ways and Means Committee at the right point in their hearings that will ask them to look at the kinds of tax credits that they are providing for business, to make certain that it does address the various components of competitiveness.

There is a proposal afoot called the BIC, the Block Investment Credit, that would give companies more flexibility in how they use that credit. It is true, it would expand the revenue loss. But I think, if we look at our competitive position now and in the future, we simply have to address the need for human capital investment as well.

But I think you are right. We have a responsibility to go forward to the Ways and Means Committee. We will keep you informed of those efforts.

Mr. GUNDERSON. Dick?

Mr. DURBIN. Steve, if I am not mistaken, Nancy, didn't you mention that Harold Ford is a cosponsor of yours, as he is a cosponsor of H.R. 26. As chairman of the subcommittee which would consider this legislation, we think that is an encouraging signal.

If we could predict what the Ways and Means Committee is going to do on anything, we would have such a great receptive audience in the hallways of the Longworth Building over the next several weeks that I am sure we would find plenty to do with our time.

But I think it is important for us who believe—and, of course, the members of this subcommittee—that retraining is an important component of our Nation's future to make it clear to Ways and Means that it isn't just a matter of hearing from business, in terms of protecting their capital growth. It is a matter of hearing from those of us who believe that the American worker should be represented in tax reform to make the point that any tax reform package include at least part, if not all, of the elements we have discussed today.

Mr. GUNDERSON. Dick, I think it's your bill that provides the 100 percent credit for the worker and 125 percent deduction for the employer. No. 1, I would be interested as to why 125 percent as opposed to just 100 percent.

Second, it just seems that we need to at least respond to the issue of not only is Ways and Means going to take it up, but are we not going directly in the face of the effort in this country to reduce all of the maze of deductions in the tax bills. Aren't you just swimming upstream, so to speak?

Mr. DURBIN. Here's the dilemma. We have got a national problem. We want to set out to solve it. To do it, we have got to attract participants. We, I think in the first discussion with Congressman Boehlert, what the ITA would look like, had to make a very fundamental decision: Will this be a mandatory system, will it be compulsory, or will it be voluntary? Our decision was to make it voluntary. And to make it voluntary, we had to create some incentive for business to take a hard look at it, to say it's in our best interest, not only in terms of the Nation but in terms of our business, to offer to our employees the individual training account. And that is one of the reasons why we created these tax incentives to do so.

Is it in fact violating the basic premise of simplification? In a way, it is. But I think it's doing it in a way that is consistent with, as Congresswoman Johnson mentioned, what we are doing in the areas of capital growth. We have got to create the right incentives for economic growth.

I have listened closely, as you have, too, in the tax reform debate. It is not only simplicity and fairness, but it's economic growth, the third element that we have got to keep in mind.

Mr. BOEHLERT. Let me also add, if I may, that, while tax reform is the subject of the moment, it's garnering the most attention in this town and probably across the country because of the President's speeches around the country. The overriding issue of our time right now is the deficit crisis. When you consider the fact that a 1-percent increase in unemployment adds between $30 billion and $40 billion to the deficit, and then you further consider that we have combined proposals that would lessen the problem of unemployment, therefore ease the burden of the deficit crisis, it becomes all the more attractive. We are finding a lot of interest in it for that very reason.

Mr. GUNDERSON. Does your proposal work in a way that, if the employee decides that he wants an individual training account, the employer must automatically participate?

Mr. **Durbin**. No.

Mr. **Gunderson**. Is it voluntary?

Mr. **Durbin**. It's voluntary. The employer has to offer it. So, we had to create some sort of a carrot for the employer to decide to make the program available. It will take a public education effort, once we pass this legislation, to let people know what is available to them. And it's one that, I think, is well worth undertaking. But, clearly, the employer has to make the first decision to move forward.

Mr. **Gunderson**. A final question with regard tc the bill that Congresswomen Johnson and Kaptur are proposing. That is, using the Individual Retirement Account, a lot of people are going to say that, once you have opened the door, the floodgate is going to flow and we're going to use it for housing and we're going to use it for medical care and we're going to use it for who knows what different options.

How do you respond and counter that charge?

Ms. **Kaptur**. I thought about that myself. I am glad you asked the question. I think the way that I answer it is this. Over the last 50 years in this country, what we have managed to do through the development of unemployment compensation and Social Security is tie retirement and our ability to finance retirement to savings in the workplace and contributions while one is working. The whole idea over the past 50 years is that jobs and retirement were very closely linked in the economic system. We have literally raised senior citizens out of poverity in this Nation, compared to 50 years ago.

What has happened in that 50 years, however, is that the workplace doesn't look like it did. Now the average worker will change jobs or have to be reskilled five times in a lifetime. And their retirement program is very contingent on their ability to maintain a useful life during the work years.

So, I guess I would say that I see no intellectual problem with trying to use those work years more efficiently to save up for retirement and say that there is an interplay between the retirement account and the work years. I think I would have a problem if one were looking at IRAs for medical purposes or certain other purposes, which I guess are being proposed, everything from soup to nuts, here in the Congress. But I think on retirement and performance in the workplace, I do see a connection that needs some historical change now because this is not the workplace of 50 years ago. People aren't going to be in the same job for 40 years. And their retirement program could be jeopardized by their inability to contribute during their working years.

So, I do see a connection there. I think we can argue effectively that this provides an important linkage.

There is one other point I wanted to make also. That is that, if we look at JTPA and some of the other programs that in my community are doing a superb job in bringing disadvantaged, low-skilled people into the workplace for the first time, in my community in the last year we have placed 2,000 people who would not normally have gotten jobs through JTPA and BIC. On-the-job training, they are out there. They started at the average wage, which runs anywhere between $3.65 an hour up to $8.00 an hour for a first-time job. That is pretty good.

What that program doesn't do, under title III, it doesn't really reach out to our dislocated workers, who tend to come from industries, auto manufacturing, steel, machine tool, where they have got seniority on the job. They have been earning $12 to $20 an hour. And these are people who are homeowners and who have a tradition of some savings. I think that we don't have good national solutions yet for those folks. This provides a marvelous opportunity for those families who already have been saving for their kids' education, for home ownership. And I think it is culturally relevant to that group of Americans.

It also says that we are asking them to make a life choice also to put some money aside for a change that might occur in the future. I think it is pretty tailor-made to that group of Americans, who desperately need some kind of a response from this Government.

Mrs. JOHNSON. I would support both the points that Marcy made. But to emphasize the last one, one of the things that we are trying to do with developing a national policy is to look at what is the role of business. And what is the role of Government Programs to reach out to the hard-to-employ. But we are also trying to change a mindset in America in this bill. We are trying to focus on the fact that people who come out of high school or college are going to have several careers in their lifetime, that education is going to be a continuing component in their lives, that education and training are something that they have to expect to happen periodically in their lives. So, they should prepare for it.

I think there is a good reason from the point of view of national policy to create some program that focuses on the individual's responsibility for their training and retraining and, therefore, continued employability in the future and their own security. I think it is that individual responsibility that we are trying to get to and reinforce and stimulate in our IRA provisions and in the ITA bill.

Mr. GUNDERSON. Thank you.

Thank you, Mr. Chairman.

Mr. HAYES [acting]. I don't have any questions I want to raise of the panel. I do want to make the comment that the testimony that I have heard has been excellent. I shall as a member of this subcommittee go through your written testimony.

Needless to say, I am supportive of the two bills that you have talked about, H.R. 26 and H.R. 1219. I think you are as aware as I am of the possible difficulties in these two proposed pieces of legislation being enacted into law.

Given the kind of direction—and I am not a prophet of gloom and doom—but, given the kind of directions that we seem to be going and addressing ourselves to this whole problem of unemployment, I am for the training of workers who have been displaced, but I must say that that is a first step or the first phase. Placement is a problem. I don't know if the high-tech jobs that are going to be available are going to be sufficient in numbers to offset the people who are displaced.

I just read, and you might have read it not too long ago where even in the fast food industry the possibilities are very likely that we will have a robot with six arms that will be washing the dishes and serving the customers. I also read in one of the local papers in my city the other day where the home of the future, even the home may be cleaned by, instead of maids, robots.

The point that I am making is there is a direct connection, it seems to me, between preservation of our education system and our whole outlook towards preparing our people for the future. It scares me when I look at some of the what I think are lack of approaches and lack of support for people, particularly the disadvantaged areas, where the public education system is really fighting for its survival.

Mr. **Durbin**. Congressman Hayes, I agree with you completely. I think in your area and across the Nation we have got some fundamental problems. As sure as I am sitting here, the pendulum is going to swing. Maybe this year or next year there will be a major series of articles in some magazine or newspaper pinpointing the problems that are festering in America because of our cutbacks in programs over the last 4 or 5 years.

I just recently heard a statistic which I am sure you have seen in your community. That is that the recent recovery created three million jobs, and only 2 percent of those jobs went to individuals between the ages of 16 and 24.

Mr. **Hayes**. That's right.

Mr. **Durbin**. There is also a statistic that 45 percent of the minority youth in America are functionally illiterate today.

Mr. **Hayes**. That's right.

Mr. **Durbin**. The teenage pregnancy problem and all the problems that it creates for poverty and the future for those young kids is just a national disgrace. We are going to have to address those. They are going to face us for generations to come.

Mr. **Hayes**. That's right.

Mr. **Durbin**. What we are doing today is a modest effort to address one part of the problem. I wanted to make it clear in my original testimony that I am not going to turn my back on the rest of the problems, simply saying this is enough. This is a beginning——

Mr. **Hayes**. That's right.

Mr. **Durbin** [continuing]. One that we can achieve. And I hope you will help us do that.

Mr. **Hayes**. I will do that.

Ms. **Kaptur**. Mr. Chairman, I just wanted to also point out again the JTPA experience in my community, which is now being touted as a national model, so I have got to put it on the record. The fact is that in a year and four months we have been able to place 2,000 hard-to-employ people, most of whom are young, in jobs. The secret really was our business community working with an unbelievable relationship with our public school system.

We actually put people in real jobs. I think back to one gentleman who spoke at a recent meeting back home in Toledo who said that he had helped a youngster to come into OJT, a real position on the job in a security firm. He started out as a guard. Then he went up to a larger business. He got employed by a private-sector company. And now he is assistant manager for several stores in the area in a security system getting increases in wages. This is a young gentleman who has this job who never would have been employed.

I think it is important that we put people in real jobs so they see a future for themselves and not in some of these training programs where at the end of a year or six months there is really no job; they just have a certificate and then they are out there in the workplace. I think the difference in my community has been made by young people being put in real jobs, trained for that job which they have been able to then move on from, and also a good linkage with our educational system and vocational system back home to get remediation where that is sometimes needed.

Mr. **Hayes**. All right. I want to let the panel know that you have my support. I really have some real problems with this funding on a voluntary basis. It is going to be difficult, you know.

When you talk about the whole tax problem, as my colleague here raised, when our Social Security is somewhat jeopardized, the way some of my colleagues think and the way they really would pursue it.

Ms. **Kaptur**. Mr. Chairman, just one other thing, maybe for the record, and I am sure you already know this. The demographics by 1990 work in our favor because families have not been having as many children over the last 20 years. There will be fewer people entering the workforce. So, part of the solution, we have to attend those who will enter very well, but we will have fewer entering by 1990. We hope jobs will continue to increase. So, whoever is President then will be marvelously lucky and be able to say that he or she put all these people to work and unemployment went down. But a lot of Americans are going to help make that happen because of their family decisions over the last 20 years.

Mr. **Hayes**. Congresswoman Kaptur, that may be true in your district where families are not having as many children. They are having more in my district.

Ms. **Kaptur**. That's all right, because they are the ones that will be able to move into the workplace. We are making room for you.

Mr. **Hayes**. I recognize now Congressman Henry.

Mr. **Henry**. Thank you, Mr. Chairman.

I came late, and I am sorry. My plane got in late.

It seems to me these two bills are complementary to each other in terms of the direction they are trying to take. I just commend the sponsors, each of them, for their initiative in this area. I am pleased to know of your interest in this area as well.

Mr. **Hayes**. I thank the panelists for their time and effort here.

Panel number two will come forward. Anthony P. Carnevale is chief economist and vice president for governmental affairs, American Society for Training and Development. Nat Semple is vice president and secretary of the research and policy committee, Committee on Economic Development. Dr. Dennis Carey is director, State and local government Consulting Services, The Hay Group.

We have each of your prepared testimonies. It will be entered into the record in its entirety. Hence, you can deal with the highlights of your testimony, or, if you desire, you can read the whole thing into the record yourselves.

I am advised that Congressman Ford has a statement he wants to enter into the record. Without objection, it will be so done. Bring the statement forward if you have it please.

STATEMENT OF ANTHONY CARNEVALE, AMERICAN SOCIETY FOR TRAINING AND DEVELOPMENT; DENNIS CAREY, THE HAY GROUP, INC.; AND NATHANIEL M. SEMPLE, VICE PRESIDENT, COMMITTEE FOR ECONOMIC DEVELOPMENT

Mr. **Semple**. Mr. Chairman, my name is Nat Semple. I want to thank you for the opportunity to testify today.

I am with the Committee for Economic Development, which is a business think tank involving 200 of the Nation's leading executives. Our primary concerns now are on tax reform and international finance and the value of the dollar. However, one of our primary concerns has been the issue of competitiveness in this country. A focal point of our approach to dealing with that problem has been dealing with the labor adjustment issue.

In 1984 we issued a report that included a series of recommendations on how specifically to deal with transition in the labor market resulting from loss of jobs due to competitiveness.

So, it is for that reason that I am pleased to have the opportunity to talk about H.R. 26, Congressman Durbin's proposal, and H.R. 1219.

Let me just say from the beginning that these bills have already accomplished a tremendous amount. They have kept this issue on the agenda. For this reason alone, I think they deserve very careful consideration.

Second, they do represent a marked departure from the past ways the Federal Government has dealt with labor market problems. Rather than a top-down approach, they deal with the labor market as it actually operates.

There are three other items that I am particularly enthusiastic about. They are preventive. They are tied directly to workers. They are market oriented. And they are geared toward competitiveness. Let me say that we wholeheartedly share the general focus. However, I hope that the authors are not totally committed to the specifics. I will explain why.

My concern is not so much that they are not targeted on the right problem. It is whether in fact they will solve it or do much to solve it. Overall, my concern is one of flexibility.

Let me deal first with H.R. 26. I have a difficult time seeing how this will work in practice. I think there are four major reasons for believing so. First, a major segment of the group that the bill is targeted towards, specifically towards who have been dislocated from capital-intensive industries such as auto and steel, the biggest problem we discovered with these workers is mainly one of wage transition. Historically, both auto and steel have enjoyed as much as a 70-percent wage premium on the average over the average manufacturing employee. When such a worker becomes unemployed, he or she finds it quite difficult to accept such a drastic pay cut.

I don't like to use this analogy, but it would be like asking a member of Congress to take something from 70,000 to 40,000. That is a tough thing to do for anybody.

Clearly, not all workers who lose their jobs do so in auto and steel. But the big problem they have is basically, in addition to having jobs available, is getting over this initial hurdle.

A second problem I find with H.R. 26 is that it already adds a burden to a UI system that is in deep trouble. It is in financially disastrous shape. There are inequities. It would create an extra, I would say, diversion from having to deal with the fundamental problems of UI.

I am also concerned a bit about the tax offsets. I am not exactly sure whether in fact they would do the incentive that the bill would contemplate. There are many reasons for this. I won't go into all of them. But I think that at this time, when we are doing tax reform and we need simplification—I must admit the employer community always likes to have tax incentives—there are some that they feel probably rate a higher priority than this one at this particular point. Now, this is not to say that there is not incentive now in the area for business to do this kind of thing. There are incentives now, and I will get to that when I talk about Congresswoman Johnson's proposal.

A third concern I have is the reliance on the U.S. Employment Service. I think one area that this committee could focus on, and very justifiably so, is the U.S. Employment Service. The recent report of the National Council on Employment Policy concluded that the U.S. Employment Service offers but marginal assistance to employers and job seekers. And even ICESA, the Interstate Conference, the association that represents the Employment Service, has found that the system is supported with obsolete data processing equipment and an aging, patched-together computer system. So, it is a fairly shaky foundation on which we are building our proposal.

Finally, I have a concern about participation. I don't know how many employers would respond. I doubt that many would, considering the cost of business that they are having to deal with right now. I must admit that there are a lot of employers who probably won't benefit from the tax incentives.

I think the employee is the critical issue. I don't know how many employees now realize that their future requires training, et cetera. Since it is a voluntary system, I have my doubts.

Now, let me say that I am not sure about all this. We don't know, we really don't have the facts at hand to judge this. This is just what we have experienced in similar types of efforts—not similar efforts, but other programs, that there is a lot of education of employees that has to be done.

Let me talk about Mrs. Johnson's proposal. I must say that we of CED are enthusiastic about Congresswoman Johnson's proposal to a considerable extent. We have endorsed two-thirds of it, in fact. We thoroughly endorse the idea of allowing UI to be used for training. We also thoroughly endorse the idea of using IRA drawdown.

In my own personal opinion—and I am not talking for the CED trustees—many people who become unemployed do not necessarily need training per se. They need whatever help they can get to tide them over. By focusing only on training, then you may be narrowly focusing on only one thing that may be the last thing a family needs. That is my own personal opinion.

I would, of course, be very careful about how you would use an IRA drawdown in case of dislocation. I would be careful about how to use it. I would be a little more flexible on how it can be used.

There is one aspect of Congresswoman Johnson's proposal I find troublesome, and that is the tax credit. Once again, I hate to—it's like my friend Tony here; I don't want to tell him that his tie doesn't match his suit, because I know he may be upset with me for a while. But eventually I think what we are trying to do is achieve an objective that my negative comments shouldn't be taken to say let's stop thinking about this issue.

On the tax credit issue, there is this feeling that employers now don't get any benefits. Well, there is an estimate ranging of $30 billion direct expenses for employees for training and $180 billion for indirect. And those are all expense. They all come off line right now as it is. The question is, we don't really know how much we need. That is the issue. We just don't know how much we need to get employers to do more and how much is actually required.

I must admit that one of the problems is we don't have the facts available. Employers don't really keep good accounts of how they use training. They do training all the time. It's company survival to have their employees trained. But they don't separate it out from capital investment. So, it's a tough comparison to make. It would be interesting to know over a period of time whether there has been a shift between one and the other.

In conclusion, Mr. Chairman, let me say that we are very encouraged about this. We will be looking at the CED at this subject for the rest of the year. We will be investigating it in the field.

I might add on the issue of flexibility, I just want to point out one contract that was reached between a company and the union. I am talking about flexibility now. This was a contract between General Electric and the International Union of Electric, Radio, and Machine Workers. In this contract they provided all kinds of options, everywhere from severance pay, which an employee can select, they have employment assistance, job placement, education, and retraining.

There is one provision here I found very intriguing. They subsidize. A person loses their job. They subsidize the difference between the wage of the old job and the new job for 26 weeks. It is a direct subsidy for that employee. In other words, the employee doesn't lose the wage in the transfer. This is the kind of creative thing I am talking about in terms of flexibility.

My concern about the Durbin proposal: It is in some respects too narrow. It doesn't allow flexibility. I am more enthusiastic, I must say, about Congresswoman Johnson's because it is more flexible. I just think the tax rate at this time is probably untimely, and I am not sure whether it would be effective.

Thank you very much.

[Prepared statement of Nathaniel Semple follows:]

PREPARED STATEMENT OF NATHANIEL M. SEMPLE, VICE PRESIDENT, COMMITTEE FOR ECONOMIC DEVELOPMENT

MR. CHAIRMAN,

My name is Nathaniel M. Semple, and I am Vice President of the Committee for Economic Development. CED is a business think tank that actively involves more than 200 of the nation's chief executive officers, other top business leaders, and university presidents on economic policy issues. At the moment, we are concentrating on tax reform, health care, third world finance, state economic development, the schools, and deficits.

We also plan a specific look at labor adjustment -- as part of our ongoing concern about industrial competitiveness. We will be spending much of the rest of this year on this latter task, which is why I am particularly pleased to have the opportunity to discuss H.R. 26, Congressman's Durbin's "Individual Training Account Act", and H.R. 1219, Congresswoman Johnson's "National Training Incentive Act". Whatever is said about these proposals, I believe they have already fulfilled a major role by keeping the structural labor issue and the need for training on the agenda. These proposals also represent a major departure from earlier Federal efforts to intervene in the labor market. Unlike CETA and its successor, JTPA, these bills leverage change in the local labor market, rather than establishing top-down Federal government programs.

I would hope, however, that the authors are not totally committed to the specifics of their bills, but are willing to wait until we can better determine how to go about addressing either the problem of the dislocated workers, which appears to be Congressman Durbin's focus, or encouraging training and specifically employer based training, which appears to be Congresswoman Johnson's primary objective.

Taking the bills numerically, let me discuss H.R. 26. I do not see how this approach can work. I have four major reasons for believing so:

- First, a major segment of the group that the bill wants to help -- specifically those dislocated from heavy industries such as auto and steel -- are getting the wrong kind of help in this proposal. The biggest problem workers in these traditional industries suffer is the transition from a high wage job to a lower wage job. Historically, both auto and steel have enjoyed as much as a 70% wage premium over the average manufacturing employee. When such a worker becomes unemployed, he or she finds it extremely difficult to accept such a drastic cut in pay. This would be like asking a member of Congress to accept $40,000 instead of $70,000.

Clearly, not all workers who lose their jobs do so in auto and steel. But even for workers whose average wages are somewhat more akin to the average manufacturing wage, training is almost always better if the person attains a new job and then combines it with employer-based training. Training programs sometimes help a person obtain a job, but only when a job is available.

. A second problem I find with H.R. 26, is that it adds a new tax on top of an already deeply troubled UI system. It is not unlike adding a brick to a house of cards. The UI system needs fixing -- it's broke. In CED's 1984 report on industrial competitiveness we urged a number of major recommendations and reforms of UI, many of which were addressed to the equity concerns of the system. The details of which I have included for your information as an appendix to this testimony.

Furthermore, the notion of adding yet another tax to the employer community, even with the tax offsets, simply isn't going to go over. The employer community is now have to wrestle with the notion of taking on a major new burden of taxation, provided by Reagan I, and I doubt if they would voluntarily participate in any program where it would add to their cost of doing business. As for the tax offsets, what is needed now is to simplify the tax code -- not add to its complexity.

. A third concern is the bill's reliance on the U.S. Employment Service, which is already in a sorry state and experiencing severe management overload. In a report issued just this past May, the National Council on Employment Policy concluded that U.S. Employment Service offers only "marginal assistance to employers and job seekers." And the Interstate Conference of Employment Security Agencies, the association that represents the Employment Service, has found that the system is being supported with an "obsolete data processing equipment and an aging, patched-together computer system".

Finally, I suspect only a few would voluntarily participate. Employers, in particular, would not participate, unless forced to by the provision that allow employees to make the decision for them. With respect to this latter point, I don't believe either unions or business would like have their terms set at the federal level. But, I doubt that most employees would force the issue anyway. Most workers do not believe they are going to be unemployed, and even fewer think that training in the future is something they will need.

Let me turn now to H.R. 1219, Mrs. Johnson's proposal about which I am considerably more enthusiastic. We have discussed most aspects of this proposal at CED, and, indeed endorsed two-thirds of it in our 1984 statement on industrial competitiveness. Specifically, we recommended allowing UI funds to be used for training -- a notion we first suggested in 1978. We also recommended to allow IRAs to be drawn on for training under certain conditions. These we find useful ideas. I would urge Mrs. Johnson to continue to push ahead on these two aspects.

What is appealing about both these provisions are thier flexibility, individual choice, and use of existing resources.

The one aspect of Congresswoman Johnson's proposal I do find troublesome, is the proposal to include a tax credit for employee incurred training expenses. The bill assumes that we are currently biased in favor of fixed investment versus human resources, but there is no way to know that. Fixed investment in the United States has remained fairly constant as the percentage of GNP over the past decade and a half. We do not have similar figures for investment in human resources, outside ballpark guesses that are basically extrapulations of economic models and seat-of-the-pants arithmetic. It would be useful to have figures that showed relative change between fixed investment and human resources over a period of time to see whether in fact there has been a change relative to one another from which we could infer that a bias indeed existed. But, short of that, there is very little we can say except that more money is spent in fixed investment than human resources. I might add, incidentally, that employers can already deduct as a cost of business job related employees training.

I do sympathize with the incentive to encourage employee based training, but we first need to gain a better handle on what is going on now before suggesting a new policy.

In conclusion, Mr. Chairman, let me say again that I am encouraged that both Congressman Durbin and Congresswoman Johnson are continuing to push forward on their proposals. I believe we need to learn a lot more about what way we should go and I would not urge moving on these two proposals until we do. As I have indicated, CED will be devoting considerable attention to just this task for the balance of this year, and I hope we can report back to you some time late this session or early next year on what we discover. We will be looking at what's actually happening in this field and I think this kind of investigation might prove quite fruitful. There are two areas you could spend some time, one is a thorough review and reform of the U.S. Employment Service. The second is to call for a reform of the UI system.

Again, thank you very much for letting me testify and I will be pleased to answer any specific questions you may have.

Mr. **Hayes**. Mr. Carnevale.

Mr. **Carnevale**. Let me begin by saying, very much as Nat has, that both these bills, H.R. 26 and H.R. 1219, include what is, in legislative terms, I think, always a precious cargo; and that is new ideas. In that they do, I think that they should be treated delicately and given due and very patient consideration.

I do at the same time share many of my colleague Mr. Semple's concerns with respect to the ITA's, the principal concern being that they may be somewhat elitist. That is, those who will contribute to ITA's are those who can afford the most. What may happen is that people like myself and others who earn decent incomes and have good jobs will utilize the ITA as another means to shelter additional income from taxation and never really draw down on them as training accounts and then finally draw down on them upon retirement as additional retirement income.

A second concern I have in general is that the ITA proposals presume that what is required in the case of a dislocated or a disadvantaged worker is training in order to move them towards a new or a different or even a first job. In fact, I think it is the case that what we have learned over the past decade or so in our experiences with CETA, JTPA, and similar programs and public job training is that training and education in and of itself does not create jobs. In fact, what one can do best for somebody who is without a job is get them one. The training and experience that follows thereon is of the most precious kind. A good job is a job with training and benefits in a career ladder, the learning that counts for most people. Their learning that represents real opportunity for increased income comes on the job.

To a certain extent, training outside the workplace for many people is a cruel delusion when it does not result in real advancement and movement towards good jobs with training and career ladders.

So, those are my general concerns, although I think there are many things to be said about these proposals that are very positive. First of all, they do attempt to be preventive. The current public job training system by its very nature attempts to solve the problem after the horse is out of the barn. These proposals attempt to prevent people from being dislocated from current jobs. I think that is a very positive and creative approach in all cases.

Also, I would add that there are two kinds of proposals that we are considering here that serve quite different purposes. The first kind of proposal or purpose implicit in all this legislation is to prevent job losses and to aid those who don't have jobs in getting them. In that case we have had substantial experience on the public job training side and I think a complementary approach that focuses on workers and employees while they are in the workplace is probably called for and deserving of consideration.

There is a second focus here that is quite different, and I think it represents a radical departure from our traditional perspective at the Federal level on job training, education, and human resources policies generally. Since the end of the Second World War, human resources policy at the Federal level has essentially left the private economy alone. The economy grew and provided jobs and training almost by itself. What we focused on here was essentially those who did not share in the largess of the American economy: The disadvantaged, the handicapped, and other special populations, and lately those who have lost their jobs as a result of economic transition.

In particular, H.R. 1219 and the tax credit included therein focuses on a much different question. I think it deserves to be treated as a different question. That is the overall competitive advantage of the American economy. Whereas in previous legislation, Federal legislation, we have been concerned about the distribution of jobs, the golden eggs, as it were, what seems to be at risk now and very much a focus of the legislative process is the goose itself.

Our concern, I think, and the concern that the tax credit in H.R. 1219 responds to is the role of human resources in promoting competitive advantage in the American economy. I think it also recognizes some fundamental realities in the American system, fundamental realities and changes in our economic situation.

First of all, demography, the American population is aging. More and more Americans are concentrated in the workplace. While we have built a huge public and not-for-profit education and training system which focused on young people when the baby boom was young, which focued on job training and school-to-work transitions when the baby boom left secondary school, it may be that in the future we will need to focus on human resource development and human resource services delivered in the context of the workplace. That is where the population is.

I think in part the interest in such things as tax credits and ITA's derives from a heart-felt need on the part of the American population in this regard.

The second factor that I think is recognized here is that, in terms of the way the American labor market works, it is the employer who provides job-specific training. Currently, the employers provide, by available estimates, about $180 billion in on-the-job training, informal training, coaching, as it were, and another $30 billion in formalized training. That comes to a total of $210 billion and makes the employer-based system roughly equivalent to the entire elementary and secondary education system.

It is a large enterprise, one that has been largely ignored until lately.

The question before us, I think, is, as Nat put it previously, is it large enough? How much training is enough? We really don't know the answer to that question.

We do know, however, that American competitive advantage is increasingly attached to the quality of our work force and to the quality of training and adaptability of that work force to changing prices, changing technologies, and shifting international competitive advantage. We also know that, in general, the investment market for human resources essentially doesn't exist. There is no banking system or financial apparatus that allows individual persons or even companies really to invest in human resources in the long term. There is no loan system, for instance, to discount the cost of human resource development, as there is in the case of capital.

Also, there are practices among employers in the United States that are fairly evident to me on an anecdotal basis whereby one employer trains, another employer increases wages and steals away or pirates away trained personnel. That in general reduces the overall incentive to train in the American system. Many companies, for instance, will give an employee half the training, utilize that employee for a year or so to realize gains from training, and then give them the other half of training, and then count on losing some fixed percentage of those who were trained to other companies in the same business who bid on the basis of wages and not on the basis of training.

So, I think this legislation really does recognize a number of realities in the American system. We know, in closing, that in the long term, public education is the foundation of the American economy. In the long term, educated Americans are really the major factor of production and determine our competitive advantage. But in the short term, it's jobs that determine the need for training and education.

For instance, there would be very little magic or engineering in the United States if there weren't jobs for engineers and magicians. I think these bills, especially the tax credit in H.R. 1219, recognizes some of these realities and asks us, both yourselves as legislators, and the rest of us as representatives of employers and analysts whether or not we are doing enough training in the workplace. I think at this time it is not clear, really, whether we are or we aren't.

Thank you.

[Prepared statement of Anthony Carnevale follows:]

PREPARED STATEMENT OF ANTHONY CARNEVALE, AMERICAN SOCIETY FOR TRAINING AND DEVELOPMENT

As the representatives of nearly 50,000 of the nation's employer-based specialists who train, retrain and educate the work force, the American Society for Training and Development commends the House Wednesday Group and the Northeast Midwest Congressional Coalition's interest in work place training. I am Anthony Carnevale, chief economist and vice president for Government Affairs for ASTD. We are pleased to present testimony today on the National Training Incentives Act and the Individual Training Account. We are very happy to see heightened Congressional interest to create more incentives for training and human resource development.

Workplace training can be a powerful lever for resolving many of the nation's economic and human problems. Although employer-based training has attracted little public attention, it has been a critical aspect to the nation's education and training system since the great industrial expansion in the late nineteenth century. To some extent employer-based training and development has remained the dark continent in the public training and development system for good reason. The employer-based training and human resource development system has operated smoothly, informally, efficiently, and has little connection to the public funding of institutions that dominated the human resources debate over the postwar period.

This employer-based "shadow education system" exists for many reasons: First, since 1946 the nations principle human resource development problem has been that of providing elementary, secondary and post-secondary education for the baby boom as that burgeoning population shouldered its way through childhood, adolescence and young adulthood. Second, throughout most of the postwar economic era the competitive adaption of human skills to factor price changes, new technologies, new products and shifting competitive advantage occurred smoothly and without major dislocation and disruption. Third, where major public efforts have been mounted to redistribute income toward the disadvantaged or ease transitions for dislocated employees, policymakers have relied almost exclusively on public education and training.

The growing importance of employer-based training and development is partly due to changing circumstances that have altered or challenged all of the latter presumptions. The baby boom has aged beyond the reach of elementary, secondary and even post-secondary educational institutions. Training and human resource development services are increasingly delivered to a working population. Moreover, available data suggests that adult Americans would prefer that their developmental services be delivered through the work place.

Economic Adaption

The processes of competitive skill adaption have also accelerated as the internationalization of the American economy has intensified the pace of economic and technological change. On balance these forces have created more jobs than they have destroyed. At the same time, however, those who get the jobs that trade and new technologies create are rarely the same people who lose jobs to technology and trade. Those who are dislocated by healthy economic and technological changes need to be retrained. In general these dislocated workers represent a relatively small proportion of the nation's labor force. According to a November 30, 1984 Bureau of Labor Statistics report, of the 5.1 million employees who had been on the job for three years before being displaced over the four year period between January of 1979 and January of 1984, 60% had been reemployed, 25% were still looking for work and 700,000 had dropped out of the labor force. Those former employees actually forced to drop out of the labor force amounted to little more than one half of one percent of American workers in January 1984. Other studies suggest that displaced workers number 100,000 employees per year--less than one tenth of one percent of the current labor force.

The problems of dislocated workers are significant, real and deserving of public remedies; but America's more sizeable retraining problem lies elsewhere. The nation's most sizeable retraining challenge is the constant reskilling of existing employees. Employees dislocated by economic change and made redundant by new technologies are only the most obvious and dramatic evidence of a more subtle, incremental and pervasive process of economic and technological change that affects skill requirements for all employees. The dislocated and redundant employee is only the tip of the iceberg. By far the greater mass of change in skill requirements is constantly underway in the work place as those who remain on the job react to skill changes made necessary by economic and technological forces.

Skill changes impact primarily on the job because they are evolutionary. Economic and technological adaption exacts marginal changes among the bundle of tasks associated with individual jobs or occupations. These subtle shifts in job requirements are rarely noticed outside the work place until they accumulate in sufficient quantity to effect pre-employment occupational preparations or until over a number of years and even decades they evolve into an entirely new occupation or job description. The employer-based job training system is the key element in adapting the nations human resources to changing skill requirements. Even in periods of relatively rapid economic and technological change, competitive skill changes are evolutionary not revolutionary.

Incremental shifts in prices, products, technologies and competitive advantage effect marginal changes in employee skills. Moreover, the work place is the most appropriate situs for retraining. It is in the work place where subtle shifts in products, prices and new technologies are translated into new skill requirements instantly and articulately through the calculus of market competition. The employer-based training and human resource development system is the most sensitive barometer for registering economic and technological impacts on job requirements. The employer-based training system is our first line of defense in the effort to adapt to economic and technological change and to maintain international competitive advantage.

Productivity, International Advantage and Technology

Workplace training is also key in promoting productivity, price stability and international competitive advantage. Productivity is driven by the working "team." Productivity results from the ability of working groups or "teams" to learn together in the work place. Individualized learning outside the work place contributes to employee productivity only to the extent it provides individuals with the necessary basic educational, occupational and social skills that make them ready for work place learning in the context of the production process. It is the informal and formal learning in the work place that drives team productivity and the effective integration of human and machine capital.

Productivity and thereby training are our most effective means for maintaining price stability. While reduced wage costs can hold prices down, there are limits to the effectiveness of downward wage pressures on prices. All out wage competition, for instance, would threaten the productivity of the working team, especially if experienced employees became less willing to pass on their skills to new employees or resist new technologies for fear of losing their jobs. In fact, it is rare for even the most extreme wage pressures to result in actual wage reductions. At best, employers are able to slow the rate of increase in wages to the rate of increase in productivity.

Team productivity and the formal and informal work place training that leverages it are also the most powerful lever for maintaining the nation's competitive advantage. We cannot match sweat equity with the masses of low wage workers in the underdeveloped world. Americans cannot win the race to the lowest common wage. Foreign workers willing to work for as little as fifty cents per day will win the race for low wages and low skill jobs. Moreover, the surplus of low skilled adult labor will grow in the underdeveloped world. Between 1980 and the year 2000, population growth in the twenty to forty year old cohort will increase by 600 million people in the underdeveloped world as compared with 35 million in the developed world.

Nor will technology save us. Technology knows no cultural or national loyalties and is instantly transportable. In addition, evidence shows that human factors far outweigh other resources in their contribution to American productivity growth and increases in the national income since comparative data first became available in 1929. Moreover, "working smarter" or learning on the job shows up as the most significant among human contributions to productivity and national income since 1929. Finally, we should all remember that machines are ultimately human artifacts and that if they are to be utilized effectively they must be integrated into the working team at the job site.

Entry Level Job Skills

Workplace training also has a clear and critical role in development of individual working skills. While elementary, secondary and post-secondary education institutions provide most basic academic and vocational skills, it is work place training that provides most, if not all job specific skills. This is due in part to the nature of America's human development system. After graduation from secondary school, young adults tend to experiment with alternative education, training and work experiences until roughly age twenty-five when they begin to settle into a long term career pattern.

Secondary school job-specific training is relatively outdated and irrelevant by age twenty-five. The research literature tends to bear this out. Most secondary school graduates do not work in the labor market areas in which they went to high school. Most continued work in occupations in which they received job-specific training in secondary schools. As compared with those who did not receive job-specific training in secondary school, only those with training in clerical and construction occupations showed income gains from job-specific training in secondary school. Moreover, even those gains tend to wash out within five years of secondary school graduation. According to the Bureau of Labor Statistics, in 1983 only 5% of the nation's employees report they learned something they needed to know to do their current job in secondary vocational schools and only 4% said they learned something necessary to qualify for their current job in post-secondary vocational schools.

Skill Shortages

Workplace training is surprisingly important in developing basic job skills even among professional and speciality occupations. This fact has become ever more apparent over the years in the investigation of skill shortages that are often announced but rarely materialize in the work place. Most skill shortage projections are based on headcounts of graduates of formal secondary and post-secondary occupational programs relative to projected industry hiring requirements in specific occupations and professions. Projections arrived at in this manner tend to ignore the role of the work place training system in providing for job related skills. Employers tend to take the closest available approximation to the skill they want and train it into the skill they need. This is even true among the most highly skilled professions. In 1979, for instance, most new engineering jobs were not filled by new engineering graduates. In 1983 fully a third or 33% of those trained in professional or specialized occupations said they received some or all of the training necessary to qualify for their jobs through formal or informal training in the work place. Among technicians who received training to qualify for their jobs, a remarkable 54% said they received some or all of their qualifying training from their employers in the work place. In the remainder of occupational categories of the work force, the proportion of employees who received some or all of their qualifying training for their jobs through work place training was even higher than in 1983.

Among employees in other than professional or technical occupations, 79% of those who needed training to get their jobs received some or all of that training in the work place as compared with 40% who said they received some or all of their training from schools.

Retraining

As noted above, the employer's role in retraining is significant. The work place is the most sensitive and immediate barometer of economic change. A full 70% of executives, administrators and managers said they received some or all of their retraining on the job as compared with 37% of executives and administrators who said they received some or all of their retraining at schools.* Among professionals and technicians, an equivalent proportion of employees said they got all or some of their retraining on the job or at schools. Of those who received retraining in the remaining occupational categories of the work force, 76% said they received all or some of their retraining in the work place and 23% said they received some or all of their retraining in schools.

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*Since many trainees responded that some of their training comes from both employer and other institutions, there is overlap between employer provided and other training. Figures then, will not add to 100%. (Source: Bureau of Labor Statistics, 1984)

The latter figures likely understate the amount of training leveraged through the work place. Workplace training is informal, especially OJT, and of short duration. As a result it is least memorable and survey respondents are likely to understate the amount of training they receive that is directly related to their current job. In addition, the above figures only tell us where the training takes place. This understates the quantity of employer sponsored training that does not take place in the work setting but is initiated and paid for by employers. Employers always have a choice as to whether it is most efficient to make or buy the training they need. The incentive to buy rather than make training is especially strong for smaller employers who do not have sufficient employees to realize economies of scale necessary to set up their own in-house training staffs or programs. We estimate that 38% of formalized work place training is paid for by employers but bought outside the work place. As the above data would suggest, most of the outside training paid for by employers is professional, management, technical and sales training. Also, as the above data would suggest, 64% of the training paid for by employers but provided outside the work place is provided by schools. Another 14% is bought from the "training industry," 12% from professional or labor organizations and the rest from government, community organizations and private tutors.

Size and Scope of Training

Overall spending for training by employers is sizeable. Employers may spend as much as $30 billion per annum on formal training alone and an estimated additional $180 billion per year on informal OJT. Total spending for formal and informal employer-based training adds to roughly $210 billion. This compares with an annual expenditure of $133 billion for public and private elementary and secondary education and roughly $95 billion for public and private higher education.

The most impressive aspect to employer-based training is its direct connection to opportunity and lifetime earnings for individuals. Econometric studies have consistently shown that only 15% of the variation in income among Americans can be accounted for by formal education. The remaining 85% is accounted for by learning in the work place. Earnings are driven by the ability of working teams to learn together in the context of appropriate technology. It is this reality that accounts for the fact that earnings variation among people with the same education level consistently equals the earnings variation in the nation's population at large. In more concrete terms, this is why auto and steel workers were able to command salaries so much greater than other industrial workers with equal educational achievement and attainment for so long.

The Disadvantaged/Dislocated

The importance of employer-based training is also evident in our experience with training for disadvantaged and dislocated workers. Our experience with the training of disadvantaged and dislocated workers has taught a simple and straightforward lesson: TRAINING DOES NOT CREATE JOBS. JOBS CREATE TRAINING. It is access to jobs with training and associated career ladders that provides lifetime opportunities and successful career transitions. Job-specific training outside the context of a specific job is folly. The function of all training outside the context of the job is to give individuals sufficient basic intellectual and occupational skills so that they are job ready or training ready. The evaluation data on public job training programs is clear on these points. Training closest to the job is most successful. Where jobs are unavailable at the end of the training period and training is not targeted on a specific job, training is no more successful and much more expensive than simple job search assistance.

The American Society for Training and Development members believe that the current and future status of employer-based training raises important issues: First, are we doing enough employer-based training? There is substantial evidence to suggest that we are underinvesting in work place training. In theory, employers are likely to underinvest because they cannot own human capital, guarantee a future stream of investment returns or measure investment risks and potential gains effectively. In practice, surplus labor markets encourage employers to buy rather than make human capital and to pirate trained personnel away from competitors willing to invest in training.

Second, how does the current tax system and proposed changes affect employer-based training? A recent study by the Congressional Research Service concludes that "human capital is taxed at rates which are as great or perhaps even greater than those applied to other investments...It might therefore be socially desirable for the government to provide some type of subsidy to employers to provide training..." In order to shed further light on tax issues, ASTD has contracted a major tax study which will be made available to Congress by early fall.

Third, does the future portend a need for more or less employer-based training? All signs including those mentioned above suggest a growing emphasis on human resource development in the work place. The pace of economic change seems unrelenting. Demographic changes and the absence of inflation suggest unemployment rates below six percent in the foreseeable future. Should labor markets tighten significantly, employers will have to make, rather than buy, a much larger share of their skilled employees. Moreover, should unemployment rates slip below six percent, employers will be drawing their entry level employees from among a population with high concentrations of persons with significant basic skill deficiencies requiring significant human development investments if they are to be made ready for training on the job.

The American Society for Training and Development welcomes Representatives Johnson, Clinger, and the House Wednesday Group's interest and applaud the foresight demonstrated in the introduction of H.R. 1219, the National Training Incentives Act.
We are generally pleased with the provisions contained in this bill. We feel H.R. 26, the Individual Training Account has some positive merits; however, we are concerned that it may become a way to shelter income, rather than increase training. We will continue to work with Congress as legislation develops.

Mr. **Hayes**. Mr. Carey.

Mr. **Carey**. Thank you very much, Mr. Chairman.

My name is Dennis Carey. Thank you for the opportunity to testify on H.R. 26 and H.R. 1219.

I have worked with Dr. Choate of TRW on the ITA concept and implemented a similar program while serving as Secretary of Labor to former Governor Dupont of Delaware.

I have been asked today to specifically address some of the administrative issues involved in linking ITA's to the unemployment insurance system. The ITA concept is in many respects complementary to H.R. 1219. This bill would permit business to deduct from their tax liability 25 percent of training costs above the company's average training cost for the last 5 years, allow unemployed workers to finance retraining with money withdrawn without penalty or taxation from their IRA or annuity accounts, and would remove a disincentive to retraining by providing that any worker eligible for unemployment benefits could not be denied such payment due to participation in a training program.

The IRA provision alone would draw upon an existing finance system which reaches approximately 13 million households. Other incentives to invest in training could also be considered. This goes back to the point that Mr. Semple made. These include allowing debtor unemployment account States' Federal penalty taxes to be reduced by a percentage of new State imposed unemployment training taxes. This provision would encourage employer participation in training accounts among States hardest hit by unemployment and where tax rates for employers in those States are already very high.

The ITA concept blends two of the Nation's best experiences in training, savings and equity-based systems: The GI bill and the IRA. The GI bill system has fared well in terms of administration, where over 3 million used the system in 1976 alone in a variety of training opportunities; participation rates among those who needed assistance, including high rates among disadvantaged and minority populations; and facilitating the adjustment process for our Nation's displaced veterans, including high rates of placement after training. Like the IRA, the ITA is a savings and equity-based system. The ITA, as you have heard today, would require equal tax deductible constributions from both employers and employees alike and, if unused, would be returned at retirement.

From the standpoint of administration, the ITA could easily be tied to the existing unemployment tax structure, thereby establishing an important link between income support and readjustment assistance. Such linkage was advocated by the 1983 White House Conference on Productivity, cochaired by former Secretary of Labor John Dunlop and William Seidman. The States of Delaware and California have already taken steps in this direction by implementing a special one-tenth of 1 percent Unemployment Insurance employer tax for training.

Experiences in these States have proved to be successful. Other States, such as Illinois, are in the process of setting up an ITA system, and three States currently tax both employers and employees for unemployment benefits. These examples demonstrate the administrative feasibility of implementing an ITA system tied directly to the Unemployment Insurance System.

I have included as part of my formal submission draft legislation for implementation of the administrative requirements for an ITA system at the State level. This draft was reviewed by key employment security managers at the State level, and their assessment reads as follows:

It would seem the implementation of such a program would parallel a training tax system, specifically, a billing and collection system separate or piggy back with the UI tax, an accounts receivable system, and a funds distribution system would be required. While the initial startup would require a concerted effort by State agency staff to ensure an efficient and effective system, once operational, an ITA program would be easily managed with sufficient staff. It is important to recognize that an ITA will result in increased fiduciary responsibilities for employers. The issue of how employees working for more than one employer would also have to be resolved, as well as the issue of who pays the administrative costs.

In addition to examples of quasi-ITA initiatives at the State level, collective bargaining agreements at Ford, General Motors, AT&T, and GE have set up special employer or joint employer-employee systems financing training and job search programs, with some success.

Reform measures must be guided by the following administrative principles:

No. one is individual choice. Ultimately the workers themselves must be given individual choice in the basic decisions made in any adjustment program.

No. two is comprehenisve coverage. The program must cover everyone who is displaced.

No. three is linkage to income support. The program should be linked to the UI System so workers have income while experiencing the readjustment process.

Early invention--the program should encourage early recognition by the dislocated worker of marketable skills and job prospects to encourage realistic assessments of the workers opportunities and job search assistance provided accordingly.

Assured financing—this will require a new financing mechanism that does not require annual appropriations from the Federal, State, or local governments.

Flexibility—because of the uncertainty of structural change, the program must be flexible enough to meet the diverse needs that may arise.

The improvement of existing systems—the Employment Service and offices of labor market information must be given improved technology and a clearer mandate.

In summary, H.R. 26 and H.R. 1219 incorporate these basic principles and are needed to help deal with structural changes in the economy precipitated by rapid technological change, increased penetration of domestic markets by our global competitors, increased investment of foreign capital as a percentage of gross national product, and changing consumer preferences. They also have the potential of reducing demand on the unemployment insurance system, and other social programs such as food stamps and welfare, the Trade Adjustment Act Program, which has essentially served as an income maintenance vehicle and not an adjustment vehicle, and title III of the new Job Training Partnership Act. At the same time, these measures can help to increase the productivity of individual firms, thereby strengthening our national competitive position.

I have provided for the formal record a more elaborate text for your review. Thank you.

[Prepared statement of Dennis Carey follows:]

PREPARED STATEMENT OF DENNIS CAREY, PH.D., THE HAY GROUP, INC.

The Individual Training Account Concept

EXECUTIVE SUMMARY

Thank you for the opportunity to testify on H.R. 26, The National Individual Training Act of 1985, and H.R. 1219, The National Training Incentives Act of 1985. I have worked with Dr. Choate of TRW, Inc. on the I.T.A. (Individual Training Account) concept and implemented a similar program while serving as Secretary of Labor to Governor Dupont of Delaware. The I.T.A. concept is, in many respects, complimentary to H.R. 1219. This bill would permit business to deduct from their tax liability, 25% of training costs above the company's average training costs of the last five years, allow unemployed workers to finance retraining with money withdrawn, without penalty or taxation, from their I.R.A. or annuity accounts, and would remove a disincentive to retraining by providing that any worker eligible for unemployment benefits could not be denied such payment due to participation in a training program. The I.R.A. provision alone would draw upon an existing finance system which reaches approximately 13 million largely working class households. Other incentives to invest in training could also be considered. These include allowing debtor unemployment account states' Federal penalty taxes to be reduced by a percentage of new state imposed unemployment training taxes. This provision would encourage employer participation in training accounts among states hardest hit by unemployment.

The I.T.A. concept blends two of the nations best experiences in training, savings and equity systems -- the GI Bill and the I.R.A. The GI Bill system has fared well in terms of (1) administration -- over 3 million used the system in 1976 alone in a variety of training opportunities, (2) participation rates among those who needed assistance - including high rates among disadvantaged and minority populations, and (3) facilitating the adjustment process for our nations' displaced veterans --

including high rates of placement after training. Like the I.R.A., the I.T.A. is a savings and equity system. The I.T.A. would require equal tax deductible contributions from both employers and employees, and if unused, would be returned at retirement.

From the standpoint of administration, The I.T.A. could easily be tied to the existing unemployment tax structure, thereby establishing an important link between income support and readjustment assistance. Such linkage was advocated by the 1983 White House Conference on Productivity, chaired by former U.S. Secretary of Labor John Dunlop, and William Seidman. The states of Delaware and California have already taken steps in this direction by implementing a special .1% Unemployment Insurance employer tax for training. Experiences in these states have proved to be successful (e.g., see attached June 8, 1985 Wilmington Delaware News Journal paper article). Other states, such as Illinois, are in the process of setting up an I.T.A. system, and three states currently tax both employers and employees for unemployment benefits. These examples demonstrate the administrative feasibility of implementing an I.T.A. system tied directly to the Unemployment Insurance system.

I have included as part of my formal submission draft legislation for implementing the administrative requirements for an I.T.A. system at the state level. This draft was reviewed by key employment security managers in the State of Delaware and their assessment reads as follows:

> "It would seem the implementation of such a program would parallel the .1% Training Tax system we are now administering. Specifically, a billing and collection system (separate or piggy back with the UI tax), an accounts receivable system, and a funds distribution

> system would be required. While the initial start-up would require a concerted effort by agency staff to ensure an efficient and effective system, once operational, an I.T.A. program would be easily managed with sufficient staff. It is important to recognize that an I.T.A. will result in increased fiduciary responsibilities for employers. The issue of how employees working for more than one employer would be treated will have to be resolved, as well as the issue of who pays the administrative costs."

In addition to examples of quasi-ITA initiatives at the state level, collective bargaining agreements at Ford and GM, AT&T, and GE have set up special employer or joint employer-employee financed training and job search programs for displaced workers. In addition, the Business Roundtable of the U.S., in a recommended policy statement dated April 23, 1984, reads in part that "the Business Roundtable membership views the employment security of its workforce as a major corporate objective and financing alternatives for such a program should include consideration of an increased payroll tax based on equal contributions by employers and employees".

Reform measures must be guided by the following administrative principles:

INDIVIDUAL CHOICE -- Ultimately, the workers themselves must be given individual choice in the basic decisions made in any adjustment program.

COMPREHENSIVE COVERAGE -- The program must cover everyone who is displaced.

LINKAGE TO INCOME SUPPORT -- The program should be linked to the UI system so workers have income while in training.

EARLY INTERVENTION -- The program should encourage early recognition by the dislocated worker of marketable skills and job prospects to encourage realistic assessments of the workers opportunities and job search assistance provided accordingly.

ASSURED FINANCING -- This will require a new financing mechanism that does not require annual appropriations from Federal, state or local governments.

FLEXIBILITY -- Because of the uncertainty of structural change, the program must be flexible enough to meet the diverse needs that may arise.

IMPROVING EXISTING SYSTEMS -- The Employment Service and offices of labor market information must be given necessary resources, modernized technology, and a clear mandate.

H.R. 26 and H.R. 1219 incorporate these basic principles and are needed to help deal with structural changes in the economy precipitated by rapid technological change, increased penetration of domestic markets by our global competitors, increased investment of foreign capital as a percentage of GNP, and changing consumer preferences. They also have the potential of reducing demand on the unemployment insurance system, and other social programs such as food stamps and welfare, the Trade Adjustment Act program, and Title 3 of the Job Training Partnership Act. At the same time, these measures can help to increase the productivity of individual firms, thereby strengthening our national competitive position.

A more extensive prepared statement with attachments are included for the written record. Thank you.

The Individual Training Account Concept

Rapid technological change, increasing penetration of domestic markets by our global competitors, increasing investment of foreign capital as a percentage of GNP, and changing consumer preferences are redefining the demand for and structure of work in America. A few facts highlight these shifts:

- Two decades ago, 8% of the U.S economy's goods-producing sector was exposed to foreign competition compared to over 70% today.
- Two decades ago, trade and foreign investment was 13% of the U.S. GNP compared to over 25% today.
- Two decades ago, the manufacturing sector produced 29% of the U.S. GNP compared to less than 25% today.

These shifts are fueling demands for protectionism, plant closing legislation, and negotiated employment security guarantees by workers caught in the squeeze of a rapidly shifting economy. The cost impact of these pressures are incalculable in lost flexibility, competitiveness, productivity, and higher prices for goods and services. At the same time, investments in meaningful readjustment assistance are increasing. In a recent survey, 10% of collective bargaining agreements in the United States included clauses dealing with the displacement of workers by technology, with approximately 35% providing retraining. More companies are also establishing Voluntary Notice programs, Crisis Centers for workers facing unemployment, Career Assistance Centers to help employees and their families through the job-loss period, and Employee Ownership Plans to help keep companies alive.

For those already unemployed, tens of billions of dollars per year are poured into unemployment insurance payments financed through employer payroll taxes. The system, established under the Social Security Act of 1935, has responded brilliantly in cushioning loss of income during temporary ups and downs of the business cycle, but poorly in dealing with structural change and facilitating the necessary adjustments. Employers are becoming more aware that the development of human capital is their most powerful competitive weapon. This perception needs to be translated into effective policy that encourages training and readjustment not only for those at risk, but also for those out of work.

Pat Choate, Senior Policy Analyst of TRW, Inc., recently observed that continued unemployment of displaced workers creates high costs to the economy in terms of the diminished competitiveness of individual firms, reduced Gross National Product because of lost production, increased demands on the Unemployment Insurance System, and a greater reliance on social programs such as welfare and food stamps. Moreover, the high personal costs to the affected workers and their families are incalculable. In exploring these topics, we address the questions of how many displaced workers there are, and what is being done to help them; and then offer guidelines for creating new efforts, including strategies for retooling the Unemployment Insurance System.

HOW MANY DISPLACED WORKERS ARE THERE AND WHAT IS BEING DONE TO HELP THEM?

Estimates on the number of displaced workers range from 100,000 to over three million. The problem is one of definition, the limited research that has been done, and the difficulty of tracking a labor force in transition. The CBO recently estimated that there were 435,000 to 815,000 displaced workers. Perhaps the most comprehensive estimate is a November 1984 study by the Bureau of Labor Statistics. It concluded that roughly 5.1 millions experienced workers (at least three years tenure) lost their jobs between 1979 and 1984 because of plant shutdowns and staff cuts. The study also revealed that of this number, 3.1 million had found new work by January 1984 and two million were still unemployed or had dropped out of the labor market.

A study released in 1985 by the Northeast-Midwest Congressional Coalition also found that the number of long term unemployed (those out of work more than six months) was 33% higher in June 1984 than April 1980, and the average length of unemployment rose from 11.3 weeks to 18.6 weeks in the same period. It is clear that despite some disagreement on the numbers of displaced workers, the problem is significant and costly to the economy.

Since the Great Depression, the Federal government has funded a variety of counseling, retraining, and income maintenance programs to assist displaced workers. Twenty-two Federal grant-in-aid programs, most of them created during the last two decades, are designed specifically to assist certain industries in hard-hit areas or those affected by imports. Examples include the Trade Adjustment Act, and programs to assist persons from the Redwood National Park in California, to the railroads in the Northeast.

In 1982, Congress passed the Job Training Partnership Act, which included a separate Title III for displaced workers. Eligibility for funds, unlike the programs that preceded it, is not limited to a particular industry condition or location. Rather, any worker who had received notice of layoff would be eligible if it appeared likely that he would not return to work. States were required to match the Federal contribution and were encouraged to provide retraining to recipients by allowing states to count workers unemployment benefits received while in training for up to 50% of the match. Unfortunately, it has been estimated that the $223 million allocated for FY'84 is adequate to serve only 4% of those eligible for its services. There has also been criticism from certain sectors that services should be available before notice of layoff is given, and not after the fact.

In the private sector, joint management-labor initiatives have recognized the importance of early intervention strategies. The 1982 agreements with Ford and GM provided that each company establish a worker re-adjustment fund, accumulating at five cents an hour for counseling, job-search assistance, retraining and personal development programs for those still working. Under the 1983 contract between the Communications Workers and AT&T, employer-financed training opportunities and relocation assistance will be available to workers affected by technological change. A recently negotiated agreement at General Electric also provides special assistance to displaced workers.

Other agreements more powerfully reflect the fear employees have for losing their jobs. Pressures for no-layoff provisions, no plant closings, and no reduced hours are increasing. Examples include the International Brotherhood of Teamsters and National Master Freight; United Food and Commercial Workers and Armour, Wilson & Hormell; United Steelworkers and Timkin; and Amalgamated Clothing and Textile Workers and Xerox. In some cases, pay, cost of living adjustments and benefits were frozen or restrained in return for guaranteed employment or advance notice of future plant closings. The United Steelworkers/Timkin agreement, for example, established an 11 year moratorium on strikes in the Canton, Ohio plant in exchange for a promise not to build a plant in the South.

Such guarantees have not escaped criticism from business executives who argue persuasively that employment security provisions can be costly and even dangerous. Alexander B. Trowbridge, President of the National Association of Manufacturers, for example, has said that "guaranteed jobs can mean enormous costs, reduced flexibility in management and investment decisions, and reduced funds available for technological modifications to increase productivity." This view differs sharply with a recent national policy study by the

Work in America Institute which suggests that "employment security" should be adopted as corporate strategy because increasing security can serve to improve the economic performance of the company and strengthen the loyalty of its workforce."

As the debate on employment security provisions continues, related political pressure for protectionism at the national level and plant closing legislation in the states intensifies. Between 1980-82 more than 20 state legislatures debated some form of plant closing legislation. Eleven states have enacted laws, and two (Maine and Wisconsin) have mandatory prenotification clauses that impose financial sanctions on companies who fail to comply. The process of adjustment in a changing economy will not be easy, and will include continued pressure to regulate the marketplace in a variety of ways. However, what is needed are policies and programs that encourage investment in training, retraining, and readjustment assistance to address the longer term issue -- how to remain globally competitive and economically viable as a nation.

Guidelines For An Effective Displaced Worker Program

If the nation's displaced workers are to be assisted in making the transitions they face, several actions are required. The most important of these is to prevent worker displacement in the first place. But if that is to be, then employers must be encouraged to invest more in the training of their workers -- to keep their skills abreast with the changing demands of their work. The American Society for Training and Development estimates that $15-30 billion per year is spent by employers to train their labor force. This figure is indicative of the high priority attached to training by the employer community, but more needs to be done.

Additional incentives are required to encourage a greater commitment to job related training. The 1983 White House

Conference on Productivity recommended adjusting the Federal tax code in order to put training investments on an equal footing with capital, and encouraging senior management to increase the visibility and status of training in both the firm's planning and line operation. By encouraging more training by employers, much worker displacement can be prevented, but not all.

As a consequence of rapid economic change, millions of additional workers will be displaced in the years ahead. If they are to be re-employed efficiently, reforms in the nation's training policies are required. Some of these reforms involve making existing programs better. Others include new policies and financing mechanisms to facilitate workforce adjustments.

These reforms need not be made all at once, but can be undertaken individually, as time and circumstances permit. To ensure that individual reforms will eventually fit into an ordered whole, however, it is necessary to define some basic principles that should guide both the reform of existing programs and the creation of new ones:

1. Individual Choice
   Ultimately, the displaced workers themselves bear the major costs associated with structural unemployment and have the most to gain from their own re-employment. Thus, to the full extent possible, these workers must be given individual choice in the basic decisions made in any adjustment assistance program.

2. Comprehensive Coverage
   Because the incidence and timing of structural unemployment are difficult to predict -- potentially affecting anyone, anywhere -- any program to assist displaced workers must cover everyone who is displaced.

3. Linkage of Displaced Worker Assistance to Income Support
   Any new displaced worker assistance program should be linked to the Unemployment Insurance System so workers have income while they are in training.

4. Early Intervention
   Under existing displaced worker programs, too long a period is permitted to elapse before action is taken. This slows the processes of worker adjustment and raises the costs, to both business and government, of operating the UI system Earlier intervention is urgently required. Programs should encourage early recognition by the dislocated worker of marketable skills and job prospects to encourage realistic assesments of the worker's opportunities, and job search assistance provided accordingly.

5. Assured Financing
   If comprehensive coverage and early interventions are to become a reality, assured financing is needed. This will require a new financing mechanism that does not depend on annual appropriations from the federal, state or local governments.

6. Flexibility
   Because of the uncertainty of structural change, any displaced worker adjustment assistance system must be flexible enough to meet the diverse needs that may arise.

7. Improve Existing Systems
   Many of the elements of an effective comprehensive displaced worker program -- such as the Employment Service and offices of Labor Market information -- already exist. Their programs such as job referral services and counseling systems must be given necessary resources, modernized technology and a clear mandate.

Reforms in current programs will substantially enhance the quality and effectiveness of the nation's displaced worker assistance efforts. Even after existing systems are improved, however, the linchpin of a comprehensive displaced worker assistance program will have yet to be put in place -- namely, a new mechanism that can effectively guarantee the availability of retraining and relocation assistance for the millions of workers whose jobs will be abolished in the years ahead.

The costs of retraining will be high but not prohibitive. Moreover, not all workers will need or want retraining or to relocate. Simply put, no one knows how many will want or need retraining -- only that many will. Thus, a flexible approach is required.

Re-Employment Strategies

There are a number ways to provide for a comprehensive and flexible displaced worker assistance system, including direct federal or state funding; the use of some part of Unemployment Insurance entitlements for retraining; or the creation of Individual Training Accounts (ITA).

Pat Choate of TRW, Inc., in recent testimony to the Joint Economic Committee of the U.S. described the ITA concept as a flexible, simple-to-administer, self-financing system designed to speed the re-employment of displaced workers by providing funds for retraining and, if necessary, relocation as well. Because it is self-financing, the ITA would not add to the already severe financial pressures on the UI system; nor would it depend on annual grant-in-aid appropriations from the Congress. It would require that both employers and employees make contributions, to the immediate tax advantage of both parties. Workers could draw down from the account when they needed retraining. If it was not needed, the worker could draw it down upon retirement, similar to an IRA. While the ITA has been proposed as a federal initiative, individual states could have their own programs, particularly if federal income tax law were changed to treat ITAs similarly to IRAs. Further, the Unemployment Insurance payroll tax could be used to collect employer and employee contributions.

Choate, who developed the ITA concept, has pointed out that the ITA blends two of the nation's best experiences in training and savings -- the voucher-based national retraining program, the G.I. Bill, and the savings- and equity-based system, the Individual Retirement Account. However, opponents argue that it will draw huge sums of money out of the economy and if set up as a voluntary system, will not attract those who can't afford it and need it the most -- displaced workers and their financially troubled employers.

Another approach is to modify the unemployment insurance system to link income maintenance support to readjustment and retraining. A massive system ($30 billion was spent in 1982) financed almost entirely through taxes on employers, it has performed brilliantly in dealing with cyclical change, yet has done next to nothing to facilitate unemployed worker adjustment through retraining, relocation, and basic education. It is shocking that, at last count, only one-quarter of 1 percent of UI claimants are being retrained. Between 1976-1981, e.g., approximately $18 billion was spent on extending unemployment insurance beyond the normal entitlement period. Yet only $53 million, or 1/2 of 1 percent of the total was spent on retraining and readjustment assistance. This compares with a 12 percent commitment of funds to re-employment through the unemployment system among the nations in the European Community with a high of 23.5 percent in Germany.It is ironic that in a country with a strong work ethic, most of the money we spend to help the unemployed is simply to maintain their income. The unemployment insurance system needs re-tooling.

Since the 1930s, the Unemployment Insurance System has been a first line of defense for the individual and the economy, helping to maintain income and essential expenditures and preventing a downward spiral brought on by massive cuts in consumer spending. At all times, it permits workers with marketable skills with the opportunity to search for work at their highest earnings level; finding a job at the highest skill level is good for the individual and the economy. However, we have large numbers of UI claimants whose prospects for re-employment are stymied by obsolete skills or inadequate basic education.

It has been historically true that in all states a person had to be "able and available" for work in order to be eligible for UI. In the majority of states, it is also necessary to "be actively seeking work." This has meant in the past that a person who decided that going to school to learn a new skill was necessary for re-employment would be denied such benefits; such a person was not available for work, and not actively seeking work from day to day. In legislation passed by Congress in 1970, proposed by then Secretary of Labor George Shultz, states were prohibited from denying benefits to workers enrolled in training "with the approval of the state agency." Secretary of Labor Willard Wirtz had advocated similar measures earlier.

Unemployment insurance is, however, administered by the states and not by Washington. The seemingly clear change in a federal law can mean little without a real desire to give it meaning in the office of a Governor or state Secretary of Labor. We know of one state that denies benefits to anyone enrolled in school full-time; no one is approved to enter training. On the other hand, a few states have programs to actively encourage claimants who need training to enroll in it. Most states are likely to be somewhere in between; they comply with the federal law, provide some fine print in their materials about this right, but leave it entirely to the claimant to seek to take advantage of it.[1] The agency administering unemployment insurance is not a training agency; therefore, it will require active intervention and the involvement of the business community if this new opening in the UI law is to be used and developed to bolster the skills of genuinely dislocated workers. Private industry councils and State Chambers of Commerce need to focus on these issues to bring change at the state level.

There is some prospect of agreement on a better fit between UI and retraining among employers and unions. A National labor-management Committee on Displaced Workers, chaired by former Governor Pierre S. duPont IV, then Chairman of the National Governors Association Task Force on Employment Security, recommended the following in January of 1983:

> The Committee recommends that all states review the opportunities available under existing federal and state unemployment insurance laws under which persons drawing unemployment benefits can enroll in approved training without losing their benefits. When displaced workers would otherwise exhaust benefits without becoming re-employed, unemployment insurance costs may be reduced at the same time that workers are helped to adjust to economic change, under careful administrative arrangements.

The first question asked in any discussion of retraining dislocated workers is: retraining for what? The involvement of the Private Industry Council is critical in identifying demand occupations, and appropriate training opportunities. This is done in Delaware, along with the development of a projections system, in cooperation with the University of Delaware. The validity of the judgments made is to be found in the results; in Delaware, 80 percent of those trained are placed in jobs.

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[1] The new Job Training Partnership Act mandates that the states continue to pay benefits to claimants who enroll in JTPA training. However, the funds available for retraining dislocated workers under JTPA are quite limited.

While the Delaware program refers to training opportunities purchased by the state, early intervention through the UI system can go beyond this. The audit segment of the education enterprise has been growing rapidly as community colleges move increasingly to serving adults, and as higher education institutions develop new "non-traditional" programs for adult students not heretofore served. But these opportunities, often with modest tuition fees, are spread throughout large metropolitan areas, and displaced workers may not connect with them without assistance. UI claimants who need retraining need assistance in drawing on these community institutions, if they cannot get free training from a state/federal program under the Job Training Partnership Act. If the get help _early_, while they still have some savings and UI to live on, a significant number can meet their own needs for new skills. Such "educational advisement" or "educational brokering" services have been developed in many places over the last decade; New York State, e.g., is operating seven centers using educational funds appropriated by the state legislature. The _new_ element is bringing these services to bear early on in the case of workers dislocated from their jobs.

Paying for Re-Employment Strategies

In 1983, the Human Resources report of the White House Conference on Productivity, reflecting the views of a conference co-chaired by John Dunlop and William Seidman concluded: "It would be desirable to use in some measure the Unemployment Insurance Trust to assist training and retraining." Linkage between UI and retraining has had bipartisan support at the federal level and has been advocated by the Business Roundtable of the United States. The Roundtable's recommended policy statement of April 23, 1984 reads, in part:

> "Both the public and private sectors share the responsibility for alleviating the severe social and economic costs of worker displacement. We are recommending

> a strong private role and a new comprehensive government effort which together will demonstrate the firm commitment to jobs for American workers required of a competitive and concerned society. The Business Roundtable recognizes that the private sector must make a commitment to the employment security of its work force. This should begin with efforts to fully utilize existing employees to meet changing demands of the economy and continue with support of public programs when the employer can no longer provide work. The Business Roundtable membership views the employment security of its work force as a major corporate objective and financing alternatives for such a program should include consideration of an increased payroll tax based on equal contributions by employers and employees."

This recommendation could be implemented through the ITA approach or could be linked to the unemployment insurance system. While some have talked in terms of "using UI payroll taxes to pay for retraining," this is not possible in a literal sense, at least under existing federal and state law. Taxes collected under UI law must be used for UI benefits. But it is certainly possible to use the UI tax collection system to collect an earmarked training tax to provide funds for retraining and other readjustment strategies. The mechanism is there in the form of a payroll tax on employers. Whether it is desireable to do this depends on the priority assigned to retraining by the state and the benefits recognized by the employers who have to pay the tax.

The reaction of a state to the use of the UI tax collection system to collect a new tax for training will also depend on whether its UI system has a surplus or is in debt to the federal government. Given a desire to invest in retraining, there are two different ways to approach the use of the UI system for taxing that will minimize the effect on employers and at the same time secure funds for retraining. In states with a surplus, the UI tax can be lowered more than the amount of the new training tax, thus providing employers with a net tax reduction. In debtor states, where a federal payroll tax is in effect to force repayment of loans made to the state, a training tax can be levied when the loan is paid, in an amount less than the special tax employers have been paying because of the loan, thus also resulting in a net tax reduction. In 1984, twenty states were in debt to the federal government. California is an example of a state with a surplus, Delaware of a debtor state.

In California, where there was a UI fund surplus of $2.7 billion in 1982, taxes on "positive reserve" employers' payrolls were reduced at the same time that a new equivalent .1% tax for training yielding $55 million was imposed. About two million workers were eligible in 1982 under the definition that workers would become eligible if they were UI claimants, likely to become claimants or benefit exhaustees. Training does not begin until employers agree to participate and hire program completers. The funds are administered by the California Employment and Training Panel. Delaware, a debtor state, recently paid off its federal debt, leading to a .6 percent employer federal penalty tax reduction. Employers in Delaware accepted a proposal that a .1 percent tax be retained to be used for school-to-work transitions, industrial training, and dislocated worker programs, resulting in a .5 percent tax reduction. This provided for a 32 percent increase in training dollars available for private industry council use under the Job Training Partnership Act. The unemployment insurance tax could also serve as the principal funding vehicle for an Individual Training Account concept, which requires employer and employee contributions. Three states currently impose an unemployment payroll tax on both employers and employees for income maintenance. The rest, including our two examples, tax employers only.

In launching programs similar to what is now being done in Delaware and California, the cost to employers in terms of the use of regular UI funds goes up in the short run only if people referred to training draw UI benefits for more weeks than if they were not referred to training. Workers who are truly dislocated will not find "suitable" work before they exhaust their benefits. However, the purpose of careful screening at the outset in selecting workers to be retrained is to sort out those who need retraining from those who are job-ready with their existing skills. Careful selection is the key to avoiding an increase in the duration of the receipt of UI benefits. The California Benefits Program Second Annual Report to the legislature, however, found that participation of unemployed workers in training while they receive UI seems to increase the duration of benefits and thus increases total UI costs. However, the program analysis did not consider the potential return to the worker and the economy that training provides through future earnings potential, productivity, and career advancement. In the long run, it seems reasonable to suppose, given quality training for occupations where there are job openings, that UI funds could be saved. As more workers are given skills that fit changing employer needs, there should be a reduction in the frequency and length of unemployment. There is no experience, however, that would enable estimates to be made of the net costs over a period of, say, ten years. In Delaware and California, employers obviously believe that the investment is worth the imposition of an earmarked training tax and, in the case of Delaware, there is complete support for the present program of early identification of UI claimants who may need retraining. Ed Jefferson, Chairman of the DuPont Corporation, and Alexander Giacco, Chairman of Hercules Inc., recently referred to this tax mechanism as "creative," and worthy of support. A recent Northeast-Midwest Congressional report concluded that the Federal government should do more in combining UI and training, and that the Department of Labor should adopt a consistent policy providing this activity.

The approaches described above are modest in terms of cost and are offered as reasonable steps to those who agree that it is in the interest of workers, employers, and the economy as a whole to retrain that portion of dislocated workers who will not be re-employed without it.

If we were starting from scratch in dealing with unemployment, structural change, and dislocation, logic might well suggest quite different approaches. But we are not. Unemployment Insurance is well established and widely accepted, although there are obvious disagreements on the details. The Employment Service is also well established and has the key assignment of getting UI claimants back to work. The vocational education system has long had experience in retraining adults. Community colleges are becoming adult education and training institutions as well as youth institutions. We may well need to create new programs for retraining dislocated workers, but we need to start now by getting the most out of the institutions we have and for which many billions of dollars are being invested each year. The institutions need to adjust and develop an articulation strategy geared to helping workers adapt to a changing global economy, and therefore advance the competitive edge of America's workforce.

Conclusion

Millions of displaced American workers are in urgent need of accurate job information, retraining opportunities and relocation assistance. The need for assistance is likely to increase as foreign competition, technological change, and shifting consumer preferences continue to alter demand for and the content of work.

If this challenge is to be effectively addressed, business leaders can assist by:

- Working actively with private industry councils and governors to ensure that barriers to training in state UI systems are reduced or eliminated;

- Examining existing employment service and labor market information programs to ensure that their tax dollars committed through the Federal Unemployment Tax Act are being spent efficiently;

- Working with state government leaders to examine the effectiveness of current displaced worker programs; and

- examining ways to finance training through joint employer - employee funding and link this activity to a comprehensive review of the state's unemployment tax structure.

Effective adjustment strategies are good not only for displaced workers and their families, but for employers who continue to face employee pressure through collective bargaining, governments who face pressure for plant closing legislation and protectionist measures, and the economy at large, which shoulders the cost in terms of lost Gross National Product, lost productivity, and flexibility, higher costs for good and services, and accelerating social costs for unemployment insurance, welfare, and food stamps. Readjustment strategies linked to the unemployment insurance system can help reduce these pressures while at the same time recognizing that the economic rules of the game have changed forever.

Attachment 1

_____BILL NO._____

AN ACT TO AMEND TITLE 19, DELAWARE CODE, TO ESTABLISH THE DELAWARE INDIVIDUAL TRAINING ACCOUNT ACT OF 1984 TO PROVIDE INCENTIVES TO EMPLOYERS AND EMPLOYEES TO INVEST IN A SYSTEM OF INDIVIDUAL TRAINING ACCOUNTS TO BE USED TO DEFRAY THE COSTS OF TRAINING INVOLUNTARILY UNEMPLOYED WORKERS

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF DELAWARE (three-fifths of all the members elected to each House thereof concurring therein):

Section 1. Amend subsection (a) of Section 3166 of Title 19, Delaware Code, by adding a new paragraph (5) thereto to read as follows:

"(5) All monies collected pursuant to Section 3502 of this Title."

Section 2. Amend subsection (c) of Section 3166 of Title 19, Delaware Code, by adding a new paragraph (7) thereto to read as follows:

"(7) The payment of the costs of a program to counsel, retrain and place involuntarily unemployed workers into gainful employment, and the payment of the administrative costs of such a program, shall be from monies collected pursuant to Section 3502 of this Title."

Section 3. Amend Title 19, Delaware Code, by adding thereto a new Chapter 35 to read as follows:

"CHAPTER 35. INDIVIDUAL TRAINING ACCOUNTS

§ 3501 Establishment of Individual Training Accounts

There is hereby established the Individual Training Account Program which shall provide that equal contributions from employers and employees shall be used to accumulate funds to set up job training accounts to assist workers in moving from obsolete to demand jobs. Each such account shall be limited to a maximum of $4,000. An employee may withdraw funds from the account to pay costs for training in the event the employee becomes or is about to become involunatrily unemployed.

§ 3502 Determination and Collection of Training Fund Contributions

(a) Employer Contribution. In addition to all other money payments to the State due under Title 19, each employer liable for assessments under Chapter 33 of Title 19 shall also be liable for a training fund contribution which shall be levied at the rate of eight-tenths of one percent (0.8%) per year on total wages payable to each employee listed on the Quarterly Payroll Report submitted with the Employer's Summary Assessment Report (UC-8).

(b) Employee Contribution. Employers subject to (a) above whose employees' wages are listed on the Quarterly Payroll Report shall deduct and withhold from such wages for each payroll period a contribution equal to eight-tenths of one percent (0.8%) of the total wages payable to the employee during that payroll period.

(c) Maximum Contribution. Contributions to the Individual Training Account shall continue until a maximum of $4,000 per employee is reached. The Department shall establish fund account controls and notify both employer and employees when that maximum is attained.

(d) Information Statement for Employee. Every employer required to deduct and withhold contributions under this chapter from the wages or other remuneration of an employee shall furnish to each such employee, in respect to the wages or other remuneration paid by such employer to such employee during the calendar year, on or before January 31 of the succeeding year, or, if his employment is terminated before the close of such calendar year, within 30 days from the date on which the last payment of wages or other remuneration is made, a written statement, as prescribed by the State Department of Labor, showing the amount of wages or other remuneration paid by the employer to the employee, the amount deducted and withheld as contributions and such other information as the State Department of Labor shall prescribe.

(e) Employers' Return and Payment of Employer Contribution and Contribution Withheld. Every employer required to deduct and withhold contributions under this Chapter shall, for each calendar quarter, on or before the 15th day of the second month following the end of such calendar quarter, file a withholding return as prescribed by the Department of Labor and pay over to the Department of Labor, the contribution as so required to be deducted and withheld. The employer contribution equal to the withheld contribution shall also be paid with this return.

(f) Employers' Liability for Withheld Contributions. Every employer required to deduct and withhold contribution under this chapter is made liable for such contribution. For purposes of assessment and collection, any amount required to be withheld and paid over to the State Department of Labor and any additions to contribution, penalties and interest with respect thereto, shall be considered the contribution of the employer. Any amount of contribution actually deducted and withheld under this chapter shall be held to be a special fund in trust for the State Department of Labor. No employee shall have any right of action against his employer in respect to any money deducted and withheld from his wages and paid over to the State Department of Labor in compliance with this Chapter.

(g) Interest on Unpaid Contributions. Interest shall accrue on all unpaid contributions as prescribed in Section 3357 of this Title 19 and shall be collectible in the same manner.

§ 3503 Disbursement of Individual Training Account Funds

(a) All monies collected under this Chapter shall be deposited in the Special Administration Fund of the Department of Labor and shall be dedicated to the establishment and implementation of the Individual Training Account program to provide for the counseling, training and placement of involuntarily unemployed workers, and to pay the administrative costs of such a program.

(b) Except for the administrative costs incurred by the Department of Labor for its participation in the program, all monies collected under this Chapter shall in a timely manner after deposit pursuant to subsection (a) of this Section, be disbursed in accordance with Department regulations to the involuntarily unemployed worker seeking counseling, training and placement under this program.

(c) Employers are encouraged to establish training programs essential to maintaining a well-trained state of the art workforce and to consider employees who become or are about to become involuntarily unemployed for participation in such programs. Workers who choose to take part in such employer-sponsored programs may utilize funds from their Individual Training Accounts to assist the employer in defraying the costs of training.

(d) Workers who have contributed to an Individual Training Account and have funds remaining upon formal retirement from the work force shall receive such funds upon verification of retirement status.

(e) The Department of Labor shall promulgate appropriate regulations to implement the provisions of this Chapter."

Section 4. The General Assembly shall review on or before July 1, 1988, the program established pursuant to this Act and shall decide whether it should be continued, modified or terminated. Appropriate legislation shall be necessary to continue levying, after June 30, 1988, the contribution established by Section 3 of this Act.

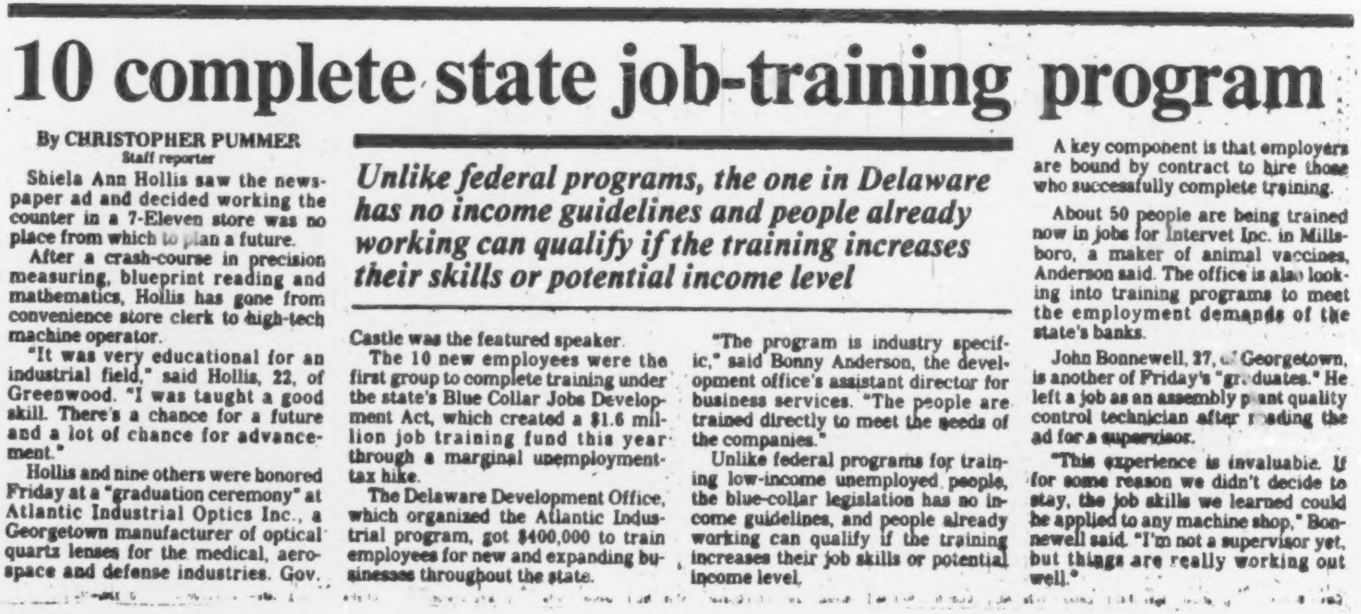
Section 5. This Act shall become effective with wages paid subsequent to September 30, 1984.

SYNOPSIS

This Act establishes Individual Training Accounts to be used to defray the costs of employee training in the event an employee becomes or is about to become involuntarily unemployed.

Employers and employees would invest equal amounts of money into the Accounts until a maximum of $4,000 per employee is reached.

Attachment 2



10 complete state job-training program

By CHRISTOPHER PUMMER
Staff reporter

Unlike federal programs, the one in Delaware has no income guidelines and people already working can qualify if the training increases their skills or potential income level

Shiela Ann Hollis saw the newspaper ad and decided working the counter in a 7-Eleven store was no place from which to plan a future.

After a crash-course in precision measuring, blueprint reading and mathematics, Hollis has gone from convenience store clerk to high-tech machine operator.

"It was very educational for an industrial field," said Hollis, 22, of Greenwood. "I was taught a good skill. There's a chance for a future and a lot of chance for advancement."

Hollis and nine others were honored Friday at a "graduation ceremony" at Atlantic Industrial Optics Inc., a Georgetown manufacturer of optical quartz lenses for the medical, aerospace and defense industries. Gov. Castle was the featured speaker.

The 10 new employees were the first group to complete training under the state's Blue Collar Jobs Development Act, which created a $1.6 million job training fund this year through a marginal unemployment-tax hike.

The Delaware Development Office, which organized the Atlantic Industrial program, got $400,000 to train employees for new and expanding businesses throughout the state.

"The program is industry specific," said Bonny Anderson, the development office's assistant director for business services. "The people are trained directly to meet the needs of the companies."

Unlike federal programs for training low-income unemployed people, the blue-collar legislation has no income guidelines, and people already working can qualify if the training increases their job skills or potential income level.

A key component is that employers are bound by contract to hire those who successfully complete training.

About 50 people are being trained now in jobs for Intervet Inc. in Millsboro, a maker of animal vaccines, Anderson said. The office is also looking into training programs to meet the employment demands of the state's banks.

John Bonnewell, 27, of Georgetown, is another of Friday's "graduates." He left a job as an assembly plant quality control technician after reading the ad for a supervisor.

"This experience is invaluable. If for some reason we didn't decide to stay, the job skills we learned could be applied to any machine shop," Bonnewell said. "I'm not a supervisor yet, but things are really working out well."

Wilmington News Journal, June 8, 1985, Wilmington, Delaware

Mr. HAYES. Thank you.

I have a couple of questions that I would like to raise of you, Mr. Semple. You endorse, if I understood you correctly, the Johnson bill?

Mr. SEMPLE. Not all aspects of it.

Mr. HAYES. Well, that part which allows employees to draw on their IRAs——

Mr. SEMPLE. Absolutely, yes.

Mr. HAYES [continuing]. For training under certain conditions.

I am sure you have heard the criticism that this bill will only benefit those who are fortunate enough to have IRA accounts established. Other than the JTPA, what kind of assistance do you envision as being available for those who do not have IRA accounts but who are in need of retraining assistance?

Mr. SEMPLE. I think both of these proposals do not directly deal with that target group that lack skills and need remedial assistance to find employment. I think these are geared for another purpose. Both these bills are really directed towards people who had jobs or people who have had them for a while.

I think at this point we could—I remember when we testified on the original administration public works proposal. We felt strongly that it was misdirected, that it was $2 billion of funds being spent on jobs that were going to be very few in number and not targeted. That was a lost opportunity. We would have much more liked to have seen a creative approach to dealing with those who lack skills in the economy.

JTPA is a step. It's one step. Obviously, there are other things that need to be done. We believe strongly that it begins with the school system. It begins with adequate education. It begins with all kinds of things that are important for developing skills for individuals. The toughest problem we have is dealing with those who are no longer in school, are in the work force and don't have the skills now.

JTPA is one aspect of it. More could be done. I don't have any specific answers as to how to do it. We have tried a lot of things. Some work and some don't.

One idea we had was for you specifically.I think Congressman Hawkins has worked on it, and this is this approach to tying training and education. That is an approach. There are things that could be done to improve that approach probably, but those are the kinds of things we should be talking about.

Mr. HAYES. You think then that the Johnson bill is void in this respect?

Mr. SEMPLE. You know, every bill isn't addressed to all the issues. This is addressed to a certain type of problem. I don't think it is designed to deal with that specifically, and it may be the wrong thing specifically to deal with that problem.

I think, however, on the other hand, if there is a serious problem of dislocation and where if we don't have early intervention, you may then find people who then fall off the rolls and get in exactly the position that we are talking about. I think the issue is to get to these individuals as soon as possible.

I mean, I would think it would be something—I wouldn't criticize the bills because they miss that mark. I think they are hitting a different mark. It may be a question of priorities. I think this is a very important priority.

Mr. **Hayes**. In some of the field hearings that we have been involved in on the whole issue of education and employment, there has been some criticism of the fact that the CETA Program, for example, has been abandoned, I guess, and replaced by JTPA. There seems to be some feeling that even that move left some people out who were benefiting from that combination of education and training at the same time.

You are right. I am not looking for criticism for the proposed legislation, that is H.R. 1219 that we are talking about. I think it is a fact, though, that it never intended to cover everything, the whole problem. I just wanted to point out that this is one thing that I want to get your reaction to. I think we need to find a way maybe through other legislation to take care of this problem.

There is a last question that I want to raise. On page five of your testimony you indicate opposition to including a tax credit for employee-incurred training expenses. If you don't provide a tax credit for business, how do you propose to entice them to provide training and retraining for the employees?

Mr. **Semple**. My argument is not that tax credit might not do something, but they are spending now approximately, if Tony's estimate is correct, about $180 billion on informal and direct training. They already deducted from their taxes. Now, the issue is whether this tax incentive would add that much more training. It's hard to judge. We don't know. We have no experience with this type of incentive.

One of the problems is, I don't think the companies really define their training costs in a way that is easily understandable. It may well, but we don't know.

I guess my concern is that, at a time when we are doing simplification, we are trying to make the Tax Code simpler for Americans, and fewer, what shall we say, loopholes, and if we don't know what the answer is, I wouldn't go charging out and putting it in. But by the same token, if we discover that it does create that kind of incentive--and maybe the thing to do is to run—I don't know how you could do this—on some kind of experimental approach, we could really find the answer before we go ahead and add another provision to the Tax Code.

Mr. **Hayes**. Mr. Carnevale, how do you provide the incentives for business to create new jobs which would include the on-the-job training and upward mobility?

Mr. **Carnevale**. There is a fundamental difficulty. It relates to a certain extent to your prior question about what it is we can do for people who are outside the economy at the moment and don't have jobs. And that is, in large part, the overall number of jobs in the American economy is governed by macroeconomic policy. At the present time, monetary policy and the large Federal deficit, monetary policy in response to a large Federal deficit is holding the unemployment rate above 7 percent. There has been a great fear in the past decade that, unless one holds the unemployment rate high, that inflation will return with a vengeance.

The one sure way to increase the overall number of jobs is to loosen the restraints on monetary policy. I am of the view, as are many other economists, that the unemployment rate could be driven easily below 6 percent at the current time, without any major cost in inflation, if we desire to do so. But essentially it is a question of which levers are available to us in terms of job creation. The lever that is available to us in terms of the overall number of jobs in the American economy is monetary and fiscal policy.

Training and other kinds of policies that we are discussing here today have to do with distributing jobs. It determines who stands in the front of the hiring queue when the employer is ready to hire, who is the best trained and the most capable of taking the job. As long as the unemployment rate is high, as long as the labor pool is large, there will always be those at the back end of that labor queue who will never be touched, who will not find jobs.

The unfortunate thing in the United States is those people are not random, that is, we all don't have the same chance of being at the back of the hiring queue. If one is female or minority or handicapped or otherwise disadvantaged, educationally and so on, one has a much higher chance of being at the back of that queue.

So, I am not sure that these kinds of proposals in the short term can really generate jobs. I don't think that that is what they are really for.

Mr. HAYES. Dr. Carey, you heard Mr. Semple in his testimony, who represents the business community, indicate that, if I quote him correctly, the notion of adding yet another tax to the employee community simply isn't going over—end of quote. In your testimony you advocate a mandatory 8 to 10 percent tax on total wages for both the employer and employee. In view of Mr. Semple's testimony, do you think the business community and employees would be receptive to this type of a proposal?

Mr. CAREY. Well, perhaps the best way to respond to that question is to describe briefly what we did in Delaware to address the issue of employer taxation through the Unemployment Insurance System.

There is no doubt that employers are already heavily taxed for financing unemployment insurance benfits for workers in any State, and especially among those States hardest hit by unemployment. Essentially, what we did in Delaware was, we attempted to repay the Federal debt that was owed principally as a function of borrowing during the 1974 through 1976 recession. Once that debt was repaid, the Federal penalty tax was lifted, which essentially was a 0.9-percent tax on every employer in the State. And then we imposed a new tax, essentially a subset of the tax that was removed, which did gain employer acceptance because they, in effect, were paying a lesser tax because of the lifting of the Federal penalty tax.

That is why I alluded to the need to provide in the context of an ITA system some process whereby some relief could be given to employers, especially among those debtor States where exorbitant Federal penalty taxes are being paid by employers.

I should take note also of a recent Business Roundtable policy statement dated April 23, 1984, which reads in part—and this was a recommended policy statement: That the Business Roundtable membership views the employment security of its workforce as a major corporate objective, and financing alternatives for such a program should include consideration of an increased payroll tax based on equal contributions by employers and employees alike.

I think that that addresses the political policy issue with regard to the Business Roundtable's position. That certainly does not necessarily represent every employer's position, but it certainly is indicative of a moving trend in the direction of acceptance of some vehicle for financing retraining through the unemployment insurance tax structure.

Another statistic that I should mention to you is a statistic that I found rather alarming. That is that between 1976 and 1981 this Nation spent $18 billion on unemployment insurance benefits, that is, income maintenance support. Of that $18 billion, only $53 million, of one-half of 1 percent of the total, was invested in meaningful readjustment assistance, including the Trade Act Adjustment Program.

Essentially, what we are doing in this country is using our unemployment insurance system as principally an income maintenance vehicle: billions for income maintenance and virtually nothing, pennies, for readjustment through that process.

Mr. **Semple**. Mr. Chairman, can I add a word about the basic employer position? I don't mean to say that I represent all employers.

My general sense is that there is a lot of skepticism. I think the Business Roundtable provided a major service by suggesting that the issue be considered. We share that point completely. We think it should be considered. Now, whether in fact it survives the test, we don't know.

I might say about Delaware, because Mr. Carey was so effective running that State's UI system that they managed to do so well. My concern is how to deal with other States. It takes a certain kind of State leadership and a variety of other essentials to sell a skeptical business community. And I am not so sure a piece of legislation can do that overnight.

I would just say that we should proceed with great caution. And if it is true that we find that all of this is in fact doable, I would be willing to have my testimony and eat it for breakfast. But I must admit that I think we should take a look at it over the next year rather than leap into it. That's my point.

Mr. **Hayes**. I think your point has been made quite clear.

The chairman has returned.

Mr. **Martinez**. It's good to be back.

Mr. Henry?

Mr. **Henry**. Thank you, Mr. Chairman.

I want to ask Dr. Carey, in the Delaware model, the two-tenths of 1 percent, combined employer-employee, how much does that yield in terms of your covered workforce each year? Where does that money get pooled? Does the money in turn get used for venture investment in the State, and are you then running off the profits to fund out? What happens to the money?

I know that in my State the business community would be very concerned, and the labor community as well, that it would just be used to wash the UI debt, and this kind of thing. How are you actuarily protecting the account for its purpose? And how are you seeing that the money somehow gets reinvested in your own economy, which I am sure you do?

Mr. **Carey**. There are basically three essential vehicles for targeting the money collected through the 0.1 percent tax in the State of Delaware. The first is for school-to-work transition activity. The second is industrial training activity so that people can be retooled, if you will, while in the existing workforce and not necessarily in danger of dislocation. And the third piece is dedicated specifically to dislocated workers.

It is important to note that in terms of administration, the unemployment insurance tax structure currently is used in Delaware to collect the money simply because it is laid on top of an existing structure, thereby eliminating the need to establish an entirely new system for collection. The distribution is handled solely through a competitive process and administered by the Private Industry Council. The Private Industry Council, established under the Job Training Partnership Act, has full accountability and responsibility for allocating those funds the way they see fit and in accordance with the need of individuals making application.

Mr. **Henry**. You use the JTPA structure to allocate these funds? I am a little confused here.

Mr. **Carey**. Yes. We use the Private Industry Council, established under JTPA, to make decisions with respect to the distribution of those funds based on a competitive process much like all other grant participants would request financing from the Private Industry Council under other JTPA Programs as well.

Mr. **Henry**. So, the worker doesn't really hold title to the account? It's a collective account that is used for social programs——

Mr. **Carey**. That is correct.

Mr. **Henry** [continuing]. Socially rather than individually targeted?

Mr. **Carey**. That is correct.

Mr. **Henry**. During the legislative debate on this, was that an issue? Was the situation in Delaware such that labor and management could get together and view their combined interests in this?

Mr. **Carey**. Well, the employer interest was obvious because we were, as Nat pointed out, at a critical juncture in the State, where we had successfully repaid the Federal penalty, or the Federal loan, which meant a reduction in our Federal penalty taxes under FUTA, which essentially reduced the employer tax load. Then we front-loaded a new tax less than the penalty tax on employers, and there was a great deal of receptivity, including very favorable comments by the CEO of the Dupont Company, ICI, and Hercules as well, who indicated that this was an appropriate mechanism to use to finance retraining within the context of the unemployment insurance tax structure.

Employee interest was generated principally as a function of AFSCME and AFL-CIO interest in competing for those dollars through the Private Industry Council, which they have successfully done.

Mr. **Henry**. I find it a very intriguing concept and really balances the questions that we had, in terms of the problem of income level skewing participation in using an IRA type approach. But it very quickly gets very, very far away from being an individual training account. It's a very, very different concept. But maybe the two together, in the long run, will be cost effective to businesses in your State, by avoiding those high unemployment rates if it's successful.

Mr. **Carey**. The thrust of my more extensive remarks suggests that the same principle can be applied on an individual basis if that is the desire of this body or State bodies.

Mr. **Henry**. Thank you.

Mr. **Martinez**. Thank you.

We thank you very much for joining us today and giving us your expertise. Thank you again.

Our third and final panel consists of Dr. Nell P. Eurich, member of the Carnegie Foundation Board and senior consultant, Academy for Educational Development, from New York, New York. Also joining her is Dr. James Kadamus, assistant commissioner for the Office of Occupational and Continuing Education, New York State Department of Education, Albany, New York.

Welcome to both of you. Dr. Eurich, we will start with you.

STATEMENT OF NELL P. EURICH, SENIOR CONSULTANT, ACADEMY FOR EDUCATIONAL DEVELOPMENT; AND JAMES A. KADAMUS, ASSISTANT COMMISSIONER FOR OCCUPATIONAL AND CONTINUING EDUCATION, NEW YORK STATE DEPARTMENT OF EDUCATION

Ms. **Eurich**. Mr. Chairman and members of the committee, both bills being considered today deserve some praise, simply for recognition of our Nation's severe problem now and coming in unemployment. The individual training account calls for contributions from the employee and employer to prepare for possible lay-offs. The other bill offers tax incentives for the employer to provide additional training and removes penalties for early withdrawal from Individual Retirement Accounts or annuities by displaced workers for training purposes.

With the exception of the tax incentive for business, both bills depend largely on the private sector for funding. And in the case of IRAs, the worker is asked to mortgage his or her future for present benefits. In effect, the displaced person must jeopardize his future economic security. Yet these same people, displaced by a failing industry, due to poor economic leadership in our country, may well be those in continuing need or greater need later in life. Justice and equity are reasonable issues. We may ask whether Government responsibility is evaded.

To compare, for example, this ITA plan with the G.I. bill is to forget completely that the G.I. bill had the heavy commitment of our Government. It was seen as a very intelligent way to help returning military personnel reenter the workforce, not go on to unemployment benefits immediately.

The Job Training Partnership Act is woefully inadequate for the magnitude of the task and has serious flaws in operation. Small measures and quick fixes merely clutter the scene and add bureaucracy.

Developing component parts, which I heard here today, developing bills that may be adjacent to each other without full clarity in knowing which part of the problem they are serving is certainly a question in my mind. We have no overall national policy or leadership in this most important area before our country.

What is needed is some sort of comprehensive approach that recognizes the ongoing nature of the work revolution that is proceeding at an accelerating rate. It is not a temporary phenomenon. It is deep and basic as the nature of work itself dramatically changes and changes more rapidly, requiring greater differentiation in skills and abilities for knowledge-intensive job applications. There is a dangerous and widening gulf between the very smart and the not-so-smart employees that has tremendous implications in a democratic Nation like ours.

Product, production method, and career obsolescence are rapid and will be repeated several times in a person's work life. We are taking about real continuing education. The need for training and retraining that has become a constant factor in American life and absolutely essential for productivity and competitive position.

While the magnitude of the challenge may seem formidable, America also possesses great resources to draw upon toward meeting it. We have many educational providers. People aren't mentioning them. We have the corporate training programs which you are seeking to encourage. We have an education system with community colleges. You have a separate funding program for vocational education. We have technical schools. We have proprietary schools. We have labor training programs. We have Government training programs in agencies throughout the country. We have military training programs, perhaps the largest area of all. And we have many community resources.

Further, we have one thing that has not been mentioned in either bill. That is the remarkable resources from the high-tech revolution itself. Although it brought us automation, robotics, and changes in work methods that led to displacement, it also gave us telecommunications and educational technologies. We can deliver courses and training where it is needed, and for training appropriate to job opportunities. Geography does not create a barrier as it once did.

Too many of our programs suggested seem to be planned on the old methods or the old formulas for reaching solutions.

Our education-training resources are limited only by imagination and projections. The parts of the puzzle can be put together and new pieces provided where necessary for longer-range effectiveness.

What we need is something like—and I don't hold a complete brief for the name—but we need something like a Strategic Council for Educational Development to provide leadership, vision, and suggest national policies. It would not have some single monolithic program. It would not be a manpower policy that has always failed.

We know there are risks in comprehensive approaches, but we have got super-computers now. We can do an awful lot better in matching our needs to our resources.

So, we are suggesting that a council of this type with strong corporate leadership have three purposes basically: one, to assess the Nation's emerging educational needs. We have talked today and here it is: retraining displaced persons, training the disadvantaged and the illiterate, upgrading scientific and technological training coordinated with high-tech projections and natural resource development. Evaluation should be in the context of life-long learning with retraining required at periodic intervals in the person's life.

Against this, the council should review and identify all our reducational resources. The point is to examine the different educational sectors to relate education, as we have just agreed, to the training problem. Which combination can best solve particular needs? How can the new technologies and delivery systems be used for cost-effective instruction? New teaching materials are available from many vendors in the learning industry.

It is a simple matter of assesing needs, assessing resources, and recommending policies. Drawing on our extensive resources, proposals can suggest programs to meet more effectively the needs. The challenge is to give guidance to both the public and the private sector, to suggest strategies for cooperative action, to issue forecasts and counsel adjustments as needed.

We don't need or want another Presidential commission that reports and disappears. We do not see a large council with a great funding apparatus. It should be a small group, and comprehensive thinking is no more costly than piecemeal thinking.

Our country does have a pattern of strategic planning bodies for the most crucial and complicated problems we face, such as national security and national defense. Is it not possible to have the most basic operation of all, a Strategic Council for Educational Development in the United States? The elements are in place, and all would welcome the guidance and endorse the support of national policies and leadership.

The two bills today would fit, if they seem feasible, after we know a little more about where we are going. Then is the time to put in the component parts.

Thank you.

[Prepared statement of Nell Eurich follows:]

Prepared Statement of Dr. Nell P. Eurich, Senior Consultant, Academy for Educational Development and Trustee, Carnegie Foundation for the Advancement of Teaching

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

Both bills being considered today deserve some praise simply for recognition of our nation's severe problem now and coming in unemployment. The individual training account (H.R.26) calls for contributions from the employee and employer to prepare for possible lay-offs. The other bill (H.R.1219) offers tax incentives for the employer to provide additional training and removes penalties for early withdrawal from Individual Retirement Accounts or Annuities by displaced workers for training purposes.

With the exception of the tax incentive for business, both bills depend completely on the private sector for funding. And in the case of IRAs, the worker is asked to mortgage his or her future for present benefits. In effect, the displaced person must jeopardize future economic security. Yet these same people -- displaced by a failing industry -- due to poor economic leadership in the United States -- may well be those in continuing need or greater need later in their lives. Justice and equity are reasonable issues to raise, and we may ask whether government responsibility is evaded.

The Job Training Partnership Act is woefully inadequate for the magnitude of the task and has serious flaws in operation. Small measures and "quick fixes" merely clutter the scene and add bureaucracy.

What is needed is a comprehensive approach that recognizes the ongoing nature of the work revolution that is proceeding at an accelerating rate. It is not a temporary phenomenon that will gradually fade away. It is deep and basic as the nature of work itself dramatically changes and requires greater differentiation in skills and abilities for knowledge-intensive job applications. There is a dangerous and widening gulf between the very smart and the not-so-smart employee that has tremendous implications for a democratic nation.

Product, production method, and "career" obsolescence are rapid and will be repeated several times within an individual's work life. We are talking about real continuing education. The need for training-retraining has become a constant factor in American life and absolutely essential for our productivity and competitive position.

While the magnitude of the challenge seems formidable, America also possesses great resources to draw upon toward meeting it. We have many educational providers -- corporate training programs, the education system with community colleges and vocational, technical schools, labor and government training programs, military training programs, and many community resources.

And further, we have remarkable resources from the high-tech revolution itself. Although it brought us automation, robotics and changes in work methods that led to displacement, it also gave us telecommunications and educational technology. We can deliver courses and training where it is needed -- and for training appropriate to job opportunities. Geography no longer creates barriers.

Our education-training resources are limited only by our imagination and projections. The parts of the puzzle can be put together and new pieces provided where necessary for longer range effectiveness.

We need a Strategic Council for Educational Development in the United States to provide vision and leadership. It would have three purposes:

1. To assess the nation's emerging educational needs. The focus will be on training needs: retraining displaced workers, training the disadvantaged and illiterate, upgrading scientific and technological training coordinated with high-tech projections and natural resource development. Evaluation will be in context of lifelong learning with retraining required at periodic intervals.
2. To identify and review our educational resources. The point is to examine the different educational sectors and how they relate to one another. Which can best provide for particular needs? How can the new technologies and delivery systems be used for cost-effective instruction? New teaching materials are coming from many vendors in the learning industry.
3. To recommend policies and programs. Drawing on our extensive educational resources, proposals will suggest various programs to meet more effectively the crucial needs of our society in a new era. The challenge is to give guidance to the public and private sectors, to suggest strategies for cooperative action, to issue forecasts and counsel adjustments and new policies as required.

The Council -- with strong corporate leadership -- should be a quasi-public body with a lifespan of a decade. Not another Presidential Commission that reports and disappears. Such comprehensive planning has its risks, as we know, but can be done better than ever before. (We have supercomputers!)

Our country has the pattern of strategic planning bodies for the most crucial and complicated problems of national defense and security. Is it not possible to have the most basic operation of all -- a Strategic Council for Educational Development in the United States? The elements are in place, and all would welcome the guidance and endorse the support of national policies and leadership.

CORPORATE CLASSROOMS: THE LEARNING BUSINESS

By Nell P. Eurich

Sponsored by The Carnegie Foundation for the Advancement of Teaching

Published by The Princeton University Press 1985 (Paperback $8.50)

The following is an excerpt:

A COMPREHENSIVE VIEW

What is needed is a comprehensive analysis of the contributions and programs of the various providers—the corporate educational system, higher education, the exploding learning industry, labor and government training programs, and community resources that this report obviously could not include. Alternative systems are plentiful and delivery methods available to reach many more people. A new era has been inaugurated and calls for a review of resources with their increased possibilities.

Continuing education at any time in life has become a fact of life. Adult registration in "organized" courses suggests that some 21 million are studying part time. Most are enrolled in community colleges, four-year colleges, and universities, and their courses usually relate to job preparation: business, engineering and technology, and health sciences. The majority are already professional and technical workers, clerical, or managerial and administrative personnel. Nevertheless, many others take courses of a more general, liberal arts nature for their personal enrichment. Adults account for the greatest growth in higher education enrollment at the present time.

Corporate classrooms, as extensive and effective as they are, may offer training to some eight million adults, but that is still less than one-tenth of the total work force. All those other workers in new and old small firms need training and do not have built-in facilities or networks. Not all larger industries have strong educational programs, and the leading large firms described here are still reaching relatively small percentages of their thousands of employees. With all the contributors and alternative systems available, programs remain insufficient and unplanned in terms of total needs; they are not geared to projections for next developments and jobs in the unfolding technological age.

Who or what combination of resources will supply the adult learner and develop the abilities our nation must have not just to maintain its economic position but to dramatically improve it in the face of worldwide competition and worldwide needs? What types of training and education are essential both for individual Americans and for the nation's imperatives? Which of our resources are most suitable to assist and should be rallied to help in providing the necessary programs? To restore America's leadership position solidly from its educational and training base requires the broadest assessment of the problem areas that undermine productivity and drain the human energy resources of the nation.

Training and retraining workers is a major challenge with complicated dimensions. Older industries' decline and automation and robotics entering factory floors have taken a human toll of over eight million. For many able and willing workers, the revolution in manufacturing processes creates a yawning chasm. For others—disadvantaged or illiterate—who never made it to the factory floor, the chasm is endless. Well-conceived and implemented training programs could release an energy potential and raise productivity levels to the benefit of our society—and offset welfare costs.

Technological advancement and change have characterized the workplace since the late eighteenth century when Eli Whitney's cotton gin and Wilkinson's machine to make machines appeared. Since then the harnessing of electricity and utilization of the internal combustion engine early in this century, and now the computer with its innovations have all brought fundamental changes in the tools and other materials used to perform work.

The misfit between workers' capabilities and the technological skills required to do the work has been deplored since mass production and centralized factories signaled the first salvos of the Industrial Revolution 200 years ago. Through three "work" revolutions within two centuries, since the early days of the great Lowell textile mills, companies have largely provided their own education for adjustment and have urged vocational training and support services from other educational sources. Often, on-the-job training was adequate with or without additional organized instruction; today worker dislocation is more complicated.

Although the old cyclical trend of technological advancement and educational retooling continues, this time around demands are accelerating. The last 30 years have brought increased speed of change and greater differentiation in skills and abilities needed for knowledge-intensive job applications. It has been pointed out repeatedly that there is a dangerous and widening gulf between the very smart and the not-so-smart employee. The blue collar worker's job is at stake. Never before have new jobs and retraining been so immediately crucial. Product, production method, and "career" obsolescence are rapid and may be repeated several times within an individual's work life.

When a corporation's philosophy embraces lifetime employment for workers and advocates promotion from within, job retraining and adjustment become a corporate responsibility. Companies like IBM and Hewlett-Packard are so committed and have their own extensive training programs. But these are giant multinationals at the forefront in a growing and expanding industry. Other companies, even those so situated, are less far-sighted and do not protect their workers, often to the company's detriment in the long run. They are the ones who cut-and-run on quick glances at the bottom line. For whatever reason, persons are displaced and potential productivity for society is being lost.

Earlier economic revolutions found answers in stimulating the new industries that brought new jobs and types of employment. Big changes create additional fields; they don't just eliminate jobs. This process is underway again but the questions remain: Will such natural processes provide enough jobs, and of what kinds? The new worlds of "service" and "information" companies have been emerging for some time and have now absorbed nearly 80 percent of the work force. High tech, to an often overlooked extent, has permeated the conventional smokestack industries. And it has already invaded older established communications, offices, entertainment, and health care fields—in each case beginning new processes and products that have brought their own demands along with them.

Some predictions for greatest employment target sales jobs for an increase of almost 19 percent, or more than one million, by 1990 according to the Bureau of Labor Statistics. And there will also be many walk-in health care centers, for example, where the main service will be provided by technicians and their computer-assisted diagnostic equipment. Although real job growth will not be computer or electronic industries themselves, fresh openings will come in businesses using the technologies. Programmers are needed in the cable industry, for example. New small companies will grow and "cottage" industries taking full advantage of modems for computer telecommunications are springing up.

Regardless of the jobs born of the computer and its accessories, this third revolution is not synchronized with the begetting of sufficient new jobs naturally because of its "knowledge-intensive" nature. A new and different type of retraining is called for—more specific, informed and sophisticated. It is learning of a higher order for understanding conceptual bases essential to the operational control and utilization of information systems. Educational demands of such magnitude require human flexibility and trainability and, as with other complex problems, solutions rest on perceptive, thoughtful policies implemented on a comprehensive basis for practical results.

Corporate classrooms could contribute the most to comprehensive retraining programs under present circumstances: their methods and style are particularly appropriate and their knowledge of the skills needed for work in spin-off fields most pertinent. But the burden can not, and should not, be placed solely on industry's doorstep. Such default by policy-makers and educators would not be for the good of the country or its economic health. If the corporate model—with technical advice and expertise—were replicated and transferred to other sectors, the pattern could be appropriate and effective. Electronic educational delivery systems can reach any location; many segments of the learning industry already have instructive materials for individual study and could produce additional job training programs. Vendors transport seminar instruction, complete with a teacher and supportive materials, to wherever needed.

Community colleges are already playing an important and helpful part. Labor unions' educational programs are also involved. Government agencies' training programs from federal to local levels could be extended and coordinated along with other community resources. Four-year colleges and universities could contribute course work for some types of employment, and faculty could create software and videocassettes to teach "personally" beyond their locale.

The recent U.S. Job Training Partnership Act that went into effect in 1983 is inadequate, and funded with barely half the monies that went into the old Comprehensive Education and Training Act. Further, the new program designates two-thirds of funding for vocational and on-the-job training for poor youths. That leaves $215 million for retraining some eight million workers who have lost their jobs because of recession or automation. Disadvantaged youth and displaced workers need training assistance, but funds allotted are not sufficient for both, and especially for the latter who were household providers.

One admirable element in the inadequate attempt is the involvement of business and corporate leaders in determining the kinds of training needed for persons on the state or local level. The danger is that training programs will be so directed to immediate employment and specific tasks that workers may bounce from job to job and intermittent training programs for the rest of their lives. If relatively well-trained people will change jobs maybe five times in a work life, then consider the effects of fast-fix training for the disadvantaged and currently displaced.

What is needed is vision or, at the very least, some long-range training programs that don't just "pay off" tomorrow, but benefit real education for America's future. If older industries are criticized for short-sightedly taking profits instead of reinvesting for capital improvements and long-range development, are we doing any better in investment policies in the major resource for the knowledge-intensive world: namely, its human resources for production and its research capacity for new applications and future markets?

Broad scale programs are needed for our country's future, and education—both in corporate classrooms and schoolrooms—is inevitably a large part of any such attempt. Strategic development for the long term is essential. Leadership and sustained effort to support and finance basic programs are too often missing. The Heritage Foundation's *Blueprint for Jobs and Industrial Growth* asks competitive markets to solve problems: competition between public and private schools through voucher systems or tax credits or competition between teachers by pay scales "that reflect supply and demand" in subjects according to market conditions. Business is encouraged to work with schools, but no comprehensive programs are suggested.

In search of a better approach to economic development in the nation, the Business-Higher Education Forum in 1983 submitted proposals to the

President. A Commission on Industrial Competitiveness was named, including three corporate leaders along with representatives from labor organizations and academic institutions. The commission prepared recommendations on human resources, capital resources, research, development and manufacturing, and international trade. Connections to academic education dealt primarily with vocational-technical schools, and business and engineering in traditional higher education. But the commission's authorization expired at the end of 1984, having had little more than a year in which to probe complicated issues and consider masses of information.

Global Stakes' authors argue cogently for a Presidential Commission on Technology and Productivity. They call for a new High Technology Morrill Act to do for the United States today what the original nineteenth century Morrill Act did to assist agricultural and industrial progress. At that time the government took its first big step into subsidizing the education that became the basis for an informed citizenry and workers that were able to introduce and cope with the next industrial revolution.

Today, such bold action is needed once again, the authors argue, as a collaborative effort involving universities, industry, and research to lead this country in economic development. The proposed High-Tech Morrill Act addresses four national economic policy needs: sustained financial support to the American system of education, lifelong learning, high school incentives, and a global view of technology.

Their proposal, of course, stresses science and technology, and especially engineering. They ask for federal leadership and national policy, and they call for a strong educational system. The future of this country is inextricably tied to the future of high technology and to the quality of our education.

Their High-Tech Morrill Act achieved recognition to the point of combination in a triple bill for aid to engineering and science with math development at the lower levels of schools; the bill remains in oblivion with a $500 million request for the total job. That is a parody of the original, far-sighted Morrill Act, but as the authors patiently suggest, it took a decade to get the original land grant legislation. One wonders today if our country can wait a decade for a new national commitment to education.

The time has come to take the larger view on a sustained basis. We do not suggest another presidential commission with short life and limited impact, nor do we propose legislative initiative with token funds to improve temporarily the patient's symptoms. Rather, what is needed is an ongoing concern with a broader mandate. It is more than just our competitive position; it is the health of our nation at stake.

Could we not consider a *Strategic Council for Educational Development* that would help guide improvement and national policies for the next decade? Without such continuing leadership no one scheme will suffice. Too many tactical proposals and short-range programs are being offered. The debate must move forward, and society must make the long-range capital investment in human resources and their development for the future of individuals and the national economy. Very often when education programs have been started or promoted in our country there has been an economic purpose—the progress of America seen by Horace Mann and Horace Greeley or the legislators who passed the Morrill Act.

Once again we need vision and leadership to project programs for emerging needs. The new vision is one of continuing education for national renewal and the pursuit of well-being for all citizens in a period of dramatic technological change. The council would consider national needs for the foreseeable future and propose a variety of means and alternative ways to meet them. Basic to its deliberations is the improvement of education given by all sectors and the coordination of programs among them to increase the effectiveness of total opportunities.

The Strategic Council would have a three-fold purpose:

> *To assess the nation's emerging educational needs.* The focus will be on training needs: retraining displaced workers, training the disadvantaged and illiterate, upgrading scientific and technological training coordinated with high tech projections and natural resource development. Educational needs must be evaluated in the context of lifelong learning with training required at periodic intervals as well as increased opportunities for an aging population.

To identify and review our educational resources. The focus will be on the different education sectors and how they relate to one another. The roles of schools and colleges and adult education will be evaluated along with corporate education. Training programs of labor, government agencies and the military also are vital to the review. Finally, educational opportunities must be assessed with the new technologies and delivery systems in mind and with the instructional materials coming from the learning industry.

To recommend policies and programs. Drawing on our extensive educational resources, proposals will suggest how programs can be designed to meet more effectively the crucial needs of our society in a new era. The goal here is not to establish a national manpower policy, which has never been effective in the United States; rather, the challenge is to give guidance to the public and private sectors, to suggest strategies for federal and state action, and to identify ways in which colleges and the corporate sector can cooperatively serve the lifelong education of adults. Council reports may be viewed as forecasts that bring intelligence to bear on complex problems and counsel adjustments and new programs and policies as required.

We recognize, of course, the risks involved in comprehensive planning. And we know that past experiments have usually had only marginal success. Still the effort must be made to benefit from past errors and do it better this time.

Urging the restoration of America's leadership and competitive position in the world economy sounds hollow if our educational resources are ignored as the underpinning for development and if our training needs go unmet. The nation is weakened by every person unable to contribute to its productivity and enrichment in every sense.

The challenge is to create a pool of well-skilled and educated citizens from which society's requirements—including the economic—can be met for the future. Concerted action is called for from industry, labor, schools and universities, and the federal government. Such planning and projections cannot come effectively from separate states; their role comes in implementing and adjusting the programs within a great nation. No matter how appealing the new federalism may be, it abdicates leadership for America as a whole.

Our country has the pattern of strategic planning bodies for the most crucial and complicated problems of national defense and security. Is it not possible to have the most basic operation of all—a Strategic Council for Educational Development in the United States? The elements are in place and all would welcome the guidance and endorse the support of national policies and leadership. Americans have a generic belief in education, as they should, in terms of the record.

New York Times, May 13, 1985

Study Criticizes Jobs Program in City

By WILLIAM SERRIN

A city program to combat unemployment, conducted under the Federal Job Training Partnership Act, is neglecting New York's most disadvantaged youths, according to a report by a New York public policy consulting organization.

The act "is a seriously flawed piece of legislation, and a disaster for New York City, considering the extent and the persistence of youth unemployment here," said Stanley S. Litow, executive director of the organization that conducted the yearlong study, the New York Interface Development Project.

The report says the program is better managed in New York than elsewhere. But it says the Federal act puts pressure on participating agencies to enroll youths most likely to get jobs with the least help. As a result, it says, those who most need assistance are often ignored.

The New York program receives $81 million a year in Federal funds.

Manuel Bustelo, the Commissioner of the New York City Department of Employment, which administers the program, said it requires that 70 percent of the participants be placed in jobs. For that reason, he said, agencies "are going to make every effort" to assist youths most likely to find work.

Mr. Bustelo said the needs of the city's youths were extensive, but that expenditures had to be measured against other municipal needs.

"What we need is a national policy for youth," Mr. Bustelo said. "We are all serving under J.P.T.A. a very small universe of people."

In Washington, Michael [illegible], a spokesman for the Labor Department, which oversees the national program, rejected the charge in the report.

He said the program, with a yearly budget of $3.7 billion, was "tremendously successful." He said 94 percent of those in the program were economically disadvantaged, including many young people, and that the program's placement rate was 68 percent.

The Job Training Partnership Act was signed by President Reagan in October 1982. The program is the Government's major job-training effort.

A Focus on Clerical Skills

The New York study, financed by the Robert Sterling Clark Foundation, says the Department of Employment, which contracts with community organizations to conduct classes and perform placement, is not taking advantage of opportunities under the Federal law to serve disadvantaged youths.

Among those opportunities, according to the report, are the use of incentive payments for programs serving the most disadvantaged people, increased payments to the most disadvantaged youths to encourage them to stay in the program and additional funds for remedial education.

At present, each young person in the six-month program receives $30 a week for transportation and food.

The report says that 87 percent of occupational training in the New York program is clerical, and that this has the effect of excluding men and those with poor reading skills.

42% Spent on Youths

The report says the department has effectively managed funds provided by the Federal act. For example, during the 1984 fiscal year, 42 percent of the department's expenditures under the program went to youths, exceeding the Federal requirement.

Placements also exceeded projected levels, the report says, with about 80 percent of youths served by the program meeting the Federal definition for placement — that of finding a job and remaining in it for at least 30 days.

But the report says that while 232,815 New York youths aged 16 to 21 are eligible for the program, funds are sufficient to serve only 13,000, or 5.5 percent.

That is about the national percentage, but Mr. Litow said the problem of youth unemployment was more severe in New York.

The report says that of the youths being served in New York, 30 percent are welfare recipients and 44 percent are high school dropouts. Only with women, who comprised 57 percent of those served, were expected enrollments met, the report says.

Teen-Age Unemployment at 40%

According to the report, the unemployment rate for New York teen-agers is about 40 percent. For minority youths, it exceeds 50 percent.

The report says the city could improve its job-training efforts by requiring companies that receive tax abatements, subsidized loans and other economic development incentives to provide jobs and training for youths.

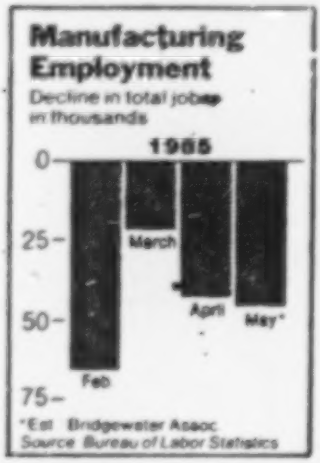
Interface, financed by corporations and foundations, wants the city to add $15 million to its budget to expand a municipal program, run without Federal funds, that provides job training for youth. This would be in addition to the Federal program.

New York Times, June 2, 1985

Fewer Factory Jobs

The nation's manufacturing base continues to erode. That will be the major message carried by this Friday's Government report on May employment, says Raymond T. Dalio, president of Bridgewater Associates, an economic consultant in Wilton, Conn.

May's overall unemployment rate should be unchanged from last month's 7.3 percent, says Mr. Dalio, "but what concerns me is the decline in manufacturing employment." The loss of manufacturing jobs shows up in two measurements, he said: the number of individuals employed in factories and "the amount of time employed per individual." For May, Mr. Dalio expects the average workweek to shrink by one-tenth of an hour, to 35 hours. He also sees 46,000 fewer factory jobs — the fourth consecutive monthly drop.



Manufacturing Employment

Decline in total jobs in thousands

*Est. Bridgewater Assoc.
Source: Bureau of Labor Statistics

Mr. **Martinez**. Thank you, Dr. Eurich.

Mr. Kadamus?

Mr. **Kadamus**. Mr. Chairman and members of the subcommittee, it is certainly an honor to present testimony to you today on worker retraining legislation. I would just like to highlight in the next few minutes parts of my testimony relating to the need for worker retraining legislation, to identify some of the approaches to retraining that we have taken in New York State, and provide specific comments on some of the programmatic aspects of the initiatives before you today.

I am not going to spend time on documenting further shifts in the workforce that are causing structural unemployment. I think previous speakers have done that quite well. We have provided evidence in our testimony.

Our conclusion is that the jobs that are being created in the new service sector to replace manufacturing jobs are substantially different, and they create a serious mismatch between the skills and income needs of displaced workers and the skill requirements and wage levels of new jobs.

We also took a look at the impact of technology. The entire product cycle in some of the high technology industries takes less than ten years from the development to the phaseout now. We find more and more that workers of the future will have to be retrained for several occupations during their working careers.

Education and training will have to be considered as ongoing. And process skills, which allow people to adapt to various occupations, must be stressed.

The part of our testimony that I think is unique is the emphasis on the importance of small business and entrepreneurship. There is a need to train people to be entrepreneurs. There is a need to provide incentives for small business to train their own workers. Much of the statistics that were given you before on the amount of investment in training is done by the large companies, the Fortune 500 companies, not by the small business that are the heart of American economy.

Nearly one-half of our State's workers are employed by small business. Today across the Nation new small companies are being created at a rate of 600,000 per year. In 1950 at the height of the industrial period, that number was only 93,000 per year. In New York State about 25,000 new businesses are created each year, adding billions of dollars to the economy.

Today one person in six is either self-employed or heads a business, and nearly one job in four is either the head of a new business or self-employed, more than double the share of 10 years ago.

Public policy initiatives including worker retraining legislation must provide support and direction for small business and encouragement and growth for budding entrepreneurs.

We have also identified in our testimony changes in demographics of the work force. Some of the other speakers have talked about that: Entry of more women and minorities into the work force, greater numbers of handicapped adults entering the work force, and an increase in adult literacy programs, which in our State have been increased through funding of the State government and are creating increased demand for job training for people who now have basic skills.

The number of undereducated and disadvantaged adults in our State requiring training has grown from the in-migration patterns in 1970 to 1980. Nearly 460,000 people entered the State from Puero Rico and foreign countries. More than 96,000 of those people did not have a high school education. More than 100,000 were single parents. One-third of those residents took jobs in low-paying, low-skilled jobs as operators and laborers.

Women will constitute two of every three new job entrants in the labor market of the future. Yet, without retraining, most will still continue to find their job opportunities confined to clerical, secretarial occupations, retail and service trades, and other work in which pay may be low and opportunities limited.

An equally important role of retraining programs is to help disabled people with substantial barriers to employment. As the economy shifts from manufacturing to information and service and technological occupations, we are finding that the use of technology renders knowledge more important than physical capacity. The potential productivity of handicapped and disabled adults increases. In our State, over 73 percent of the vocational rehabilitation clients are over the age of 20. Over 38 percent are over the age of 30, clearly a retraining challenge.

I will identify three strategies we have taken in New York for worker retraining. One is a long-term strategy. That is, we have completely restructured our vocational education system in New York State, broadened the base of vocational education to stress transferable skills as well as job-specific skills.

A more immediate strategy we have established is an employer-specific training grant program which meets the needs of business and industry, particularly small business, to retrain their employees. It meets the needs of dislocated workers to put them into firms that are expanding where there are new occupations, where there are advancements through technology.

Third, of particular interest to the subcommittee, New York State has established a tuition assistance program for dislocated workers, called the Occupational Retraining and Reemployment Act. It was initiated by the legislature in 1984. It provides tuition assistance for dislocated workers, using title III of JTPA. The act authorizes up to $1,500 to be paid to approved traininig providers for each certified eligible person in a program leading to employment in designated occupational fields with favorable employment opportunities.

In order to be eligible to participate in the program, training providers must be licensed or certified by the State education department, offer approved, nondegree programs with a minimum of 320 clock-hours of instruction. In order to qualify for participation in the program, each dislocated worker must be registered with the State department of labor and certified as a dislocated worker.

The program, like H.R. 1219, permits those individuals participating to continue to collect unemployment compensation while participating in the training program.

That particular program, I think, has implications for the bills H.R. 26 and H.R. 1219, particularly in regard to quality control.

And that is not an issue that any of the previous speakers have addressed in their testimony.

We identified some criteria in developing the occupational retraining act in New York, our tuition assistance program, which I think need to be considered in the bills before you. One, the aid provided for training should be provider neutral. That is, all types of agencies and institutions, vocational education institutions, community colleges, proprietary schools, community-based organizations, business and industry, should be eligible to compete for funds and to offer the needed training programs. A competitive market environment makes the overall delivery system for training much more responsive to the needs of students and provides the most flexible and greatest number of opportunities for students.

Second, there must be quality control measures built into the program. Problems can develop when aid programs are operated in a market environment. These problems documented by the GAO study and studies in our own State include the failure to enforce admission standards, poor quality instruction and equipment, and extremely low rates of student completion in programs.

Any worker retraining legislation must ensure that quality control mechanisms are put into place. I would strongly recommend that this committee consider using State education agencies and giving them the responsibility across the country for assessing the quality of any training program in which dislocated workers will be enrolled.

Third, the training must be targeted on areas of labor market need. Part of any worker retraining legislation must include the identification of occupations with favorable opportunities. This information must be updated on a regular basis. In addition, we believe training for entrepreneurs must be included in any review of occupations with favorable employment opportunities.

I have tried to summarize for you documentation of needs for worker retraining, highlight some of our strategies in New York, and I would encourage a review of the bills before you in light of quality control needs. I encourage you to use State education agencies which have mechanisms for assessing program quality, and to use and build upon the capacity of existing educational institutions across this country providing needed retraining.

Thank you.

[Prepared statement of James Kadamus follows:]

PREPARED STATEMENT OF JAMES A. KADAMUS, ASSISTANT COMMISSIONER FOR OCCUPATIONAL AND CONTINUING EDUCATION, NEW YORK STATE DEPARTMENT OF EDUCATION

Chairman Martinez and members of the Subcommittee on Employment Opportunities, it is an honor to present testimony on worker retraining legislation. Worker retraining is certainly a critical issue in New York State and one that we have been actively pursuing in the past several years. In my testimony I would like to discuss the need for worker retraining legislation, to review some of the approaches to retraining we have taken in New York State and to comment on the programatic aspects that one must take into consideration when developing retraining initiatives.

Our society and economy are rapidly changing and out of balance. For some who are thriving in information and high technology industries, it's a time of great growth. For those who are being displaced from work that seemed solid, important and permanent, it's a time of crisis, and uncertainty. For the long-term unemployed and educationally and economically disadvantaged, the possibility of a good job and a place in society is growing ever remote.

The Index of Help Wanted Ads clearly illustrates this widening gap. The number of unfilled positions being advertised has steadily increased these last several years right along with the unemployment rate. In 1979 approximately one million out of work people were classified as "discouraged workers: - no longer counted as unemployed because they had stopped looking for a job. More recently, the Labor Department updated this figure to 1.8 million - the highest since the government began keeping this record 13 years ago.

At the root of the growing imbalances and dislocations in our society and economy are several major transformations our State's economy is undergoing. During the 1970's, New York lost population and Congressional seats to the rest of the nation. New York only generated a net gain of 50,000 jobs during the 1970's while the remainder of the nation added approximately 19 million new jobs. Since 1970, the State's economic base has changed dramatically. The manufacturing sector has been shrinking and the service sector has been mushrooming. From 1969 to 1981 New York State's manufacturing employment decreased by 439,000 jobs, with most of the decline occurring between 1969 and 1975. Since the onset of the most recent recession during 1982, 60,000 further manufacturing jobs have been lost. By contrast, during 1982 the State's employment increased by approximately 100,000 which means the loss in manufacturing jobs was more than offset by gains in other industries. In fact, all the employment gains were due to service producing industries.

These shifts in the workforce translate into more jobs in the service than in the goods producing sector. In 1940 there were 300 manufacturing jobs for every 100 service jobs. Now there are 96 manufacturing jobs for every 100 service jobs. The sharpest increase in producer services during the nine years from 1972 to 1981 was an increase of 82 percent in jobs in business services. Employment in legal services, a part of business services, was up an astounding 96 percent. Other producer services registering substantial gains were engineering and architectural services at 68 percent, and accounting, auditing and bookkeeping services at 64 percent. Also considered part of producer services are the clerical staffs needed to support white collar workers. Today, the largest occupational group is clerical, whereas it used to be blue collar operatives. Consumer services have also been increasing. For example, during the 1972 to 1981 period, health services increased by 63 percent, amusement and recreation services by 53 percent, and social services by more than 100 percent.

Within the manufacturing sector, a transformation is also taking place. The heavy manufacturing "smokestack industries" of primary metals (steel production, metal forgings, etc.), auto production and others are being replaced by "high tech" manufacturing industries. More than half of New York State's 1.5 million manufacturing workers - 51.8 percent - are in jobs directly involving high technology goods. Even when manufacturers are not involved in high technology production in such areas as biomedical engineering and microelectronics, they are increasingly incorporating automated production processes to remain competitive. So technology is dominating and transforming the manufacturing sector of our economy.

Small businesses in New York are an increasingly important factor in its changing industrial composition. Of the roughly 410,000 businesses in the State, 98 percent or roughly 400,000 are defined as small, with 100 or fewer employees. Approximately 320,000 of the State's businesses employ ten or fewer persons. Nearly one half of our State's workers are employed by small businesses. Today across the nation, new small companies are being created at the rate of 600,000 a year. In 1950, at the height of the industrial period, the rate was only 93,000 a year. In New York State about 25,000 businesses open each year, adding billions of dollars to the economy. The last time so many new companies were being created was during the nation's transformation from an agricultural to an industrial society. Small and young firms are vital in generating new and replacement jobs. Between 1972 and 1976, firms with 50 or fewer employees generated all new jobs in the Northeast. About 80 percent of all jobs between 1969 and 1976 were generated by establishments in business four years or less. Much of the job growth can be attributed to innovation on the part of smaller and younger firms.

New York was asked to participate in a national consortium coordinated by the National Center for Research in Vocational Education at Ohio State University to assess and strengthen the role of the vocational education delivery system in providing an improved climate for entrepreneurship and small business development. As part of the consortium's work, I appointed a task force which held a series of meetings in 1984 and has developed a set of recommendations. One of the task force's recommendations was to commission a paper to examine the economic and human value of entrepreneurship and the role the educational system could play in establishing an entrepreneurial environment. Roger

Vaughan, the author of that paper, is nationally recognized in the area of entrepreneurship, and has long been associated with New York business and government.

Mr. Vaughan provides information in his paper which illustrates the critical importance of entrepreneurs in the underlying strength of New York State's and the nation's economy and the critical role they play in creating new economic opportunities, especially in the emergence of the information-based economy. His paper indicates that in recent years, national employment has expanded, on average, by two million jobs annually. This growth was not simply the result of the creation of two million new jobs, but of the loss of four million existing jobs offset by the creation of six million new ones. During an average year, two million people lost their jobs when the firms that employed them cut their payrolls, and another two million were lost in firms that went out of business. But off-setting these jobs losses were three million jobs created in brand new companies and additional hiring of three million by existing firms -- mostly by highly entrepreneurial small businesses. Existing and new small businesses -- those enterprises employing fewer than 20 people -- have been responsible for more than half of all new jobs. In contrast, few jobs in any state or region -- at most three or four percent -- were created as the result of businesses relocating. Small businesses are the most volatile sector of the economy -- much more likely than large firms to experience a very large percentage change in their work forces. While they are major creators of jobs, these jobs may be less stable.

More people are becoming entrepreneurs. Today one person in six is either self-employed or heads a business, and nearly one new job in four is either the head of a new business or self-employment -- more than double the share ten years ago. By comparison, employment in the 1000 largest corporations listed by Fortune magazine, accounting for about 40 percent of all current jobs, actually declined in the last decade.

Where possible, public policy must provide support and direction for the encouragement and growth of entrepreneurs. The education system has not played a major role to date in encouraging entrepreneurs. Traditional economics and career advice has not encouraged those who wish to pursue an independent route. Education should identify ways in which it can help potential entrepreneurs emerge and function within the State's economy. We have identified several critical issues and direction that can be pursued by education agencies to improve the climate for entrepreneurship: 1) increase the public's awareness of entrepreneurs; 2) include entrepreneurship in advice on career opportunities; and 3) provide direct assistance and advice to new and small business.

Clearly, the changes in New York's economy as well as that of the nation are putting stress on the labor market. These changes have resulted in problems of "structural unemployment" where workers displaced from a declining sector of the economy do not have the skills to obtain employment in a growing sector of the economy. Barry Bluestone, an economist at Boston College, documents some of the stresses that are being put on the job market in an article entitled "Industrial Dislocation and Its Implications for Public Policy." (The article is part of a collection of articles entitled "Displaced Workers: Implications for Educational and Training Institutions", edited by Kevin Hollenbeck, Frank C. Pratzner, and Howard Rosen.)

Bluestone traced employment trends in four "Frost Belt" states: Massachusetts, New York, Michigan and Ohio. He indicates that a sharp decline in basic manufacturing is clearly evident in Michigan, Ohio, and New York, where total manufacturing job losses ranged from 10 to 17% between 1973 and 1980. There are jobs being created in the service sector to "replace" these manufacturing jobs. However, these jobs are substantially different, creating "a serious mismatch between the skills and income needs of displaced workers and the skill requirements and wage levels of the new jobs." Bluestone talks of a "missing middle". The workforce of the old manufacturing industries was composed of a small number of high-skilled/high wage employees, a small number of low-skill/low-wage employees, and a large group of semi-skilled and skilled blue-collar and white collar middle wage employees. The industries that are expanding in the service sector and high-technology manufacturing industries have a very different make up. Bluestone characterizes it as a "bimodal" distribution, with a relatively large number of high-skill/high-wage jobs and a significant number of low-wage/low-skill jobs but no middle that corresponds to the blue-collar assembly worker in the auto industry or in the steel industry. This causes serious problems for the displaced workers in these industries in terms of rejoining the workforce. "Longitudinal data on how workers fare in the labor market after displacement from basic manufacturing industries confirm that many face permanent income loss."

The general decline in earnings is directly related to the earning levels of the growing and declining industries. Many of the most rapidly growing industries are in the low paying manufacturing and service sectors. The average weekly manufacturing wage is $369. The average weekly service wage is $248. As projected by the U.S. Bureau of Labor Statistics, seven of the ten occupations that are expected to produce the largest numbers of new jobs during the 1980's are among the lowest paying in the economy - nurses' aides and orderlies, janitors and sextons, sales clerks, cashiers, fast food workers, general office clerks, and waiters and waitresses. One-half of all current jobs pay $13,600 or below. Two-thirds of all new jobs pay $13,600 or below.

Bluestone proposes that federal and state governments intervene on both the demand and supply side of the market to deal with the problems of deindustrialization and structural unemployment. His recommendations on the supply side are relevant to this hearing. The changes that are taking place and will continue to occur in the economy will occur rapidly. Bluestone points out that the entire product cycle in some high-technology industries take less than 10 years from development to phase-out. Workers of the future will have to be trained for several occupations during their working careers. Education and training will have to be considered as ongoing and process skills which allow people to adapt to various occupations must be stressed. Bluestone emphasizes that new financing mechanisms will have to be developed to fund education and training in the new information service economy. He proposes an equity investment on the part of the federal government, whereby individuals would be able to draw upon an account for training and living expenses after being displaced and then return the funds through a surcharge on their federal income tax.

In addition to changes in the economy, other factors are creating the need for more training and retraining in New York State and the nation: changing demographics, entry of more women into the work force, greater numbers of handicapped adults entering the work force and an increase in adult literacy programs.

According to a study prepared by the Business Council of New York State, "The Impact of Migration on New York State," the number of undereducated and disadvantaged adults requiring training has grown because of the migration patterns from 1970 to 1980, in which 1.7 million people moved out of the State and 1.06 million moved in. Much of the out-migration consisted of young educated individuals. By 1980, New York State had 200,000 fewer college graduates or adults who had attended some college, 100,000 fewer managers and professionals, 180,000 fewer young adults between the ages of 20 and 34, and 300,000 fewer members of the labor force than it did in 1975. Everywhere upstate, and on Long Island, population loss was largely confined to those with at least a high school diploma. Nearly one-third of the State's net loss in the total labor force was in managerial and professional occupations. Much of the in-migration, however, consisted of undereducated, foreign-born immigrants. Nearly 460,000 people entered the State from Puerto Rico and foreign countries. More than 96,000 of these were without a high school education; more than 100,000 were members of single-parent households. More than one-third of the new residents took low-paying, lowskilled jobs such as operators and laborers. Providing employment skills to new residents is another role New York's training system must serve.

Retraining programs must also help to provide equitable access for women to occupations which meet the needs of the economy. This is particularly important since the major source of new workers for New York's economy during the next two decades will be women. Women will constitute two of every three new job entrants. Many are single parents who must work to support their families (one-third of whom live in poverty). Yet most will still continue to find that their job opportunities are confined to clerical or secretarial work, retail and service trades, and other work in which pay may be low and opportunities limited. For example, women are becoming self-employed at a rate five times that of men, yet the average female entrepreneur in 1980 earned $3,456 compared to $11,000 for self-employed men. At the same time, blue-collar women who are being laid-off from manufacturing industries are being forced back into the low-paying world of "women's work," just after making a difficult rise in heavy industry. The steel industry, for example, employed 14,500 women in production jobs five years ago, but that number has shrunk to below 3,000. Generally, dislocated female workers have suffered a far steeper fall than their male counterparts. It takes them far longer to find new employment. And, instead of finding semi-skilled industrial jobs, they are usually forced into low-wage clerical and service jobs.

An equally important role of retraining programs is to help disabled people with substantial barriers to employment become economically self-sufficient. This economic independence benefits both the individual and the economy of the State through contributions to the tax base and increased productivity of the workforce. As the economy shifts from manufacturing to information, service and technological occupations, and as the pervasive use of technology renders "knowledge" more important than physical capacity, the potential productivity of handicapped and disabled adults will only increase. In 1982-83, 14,951 disabled adults were enrolled in non-degree adult occupational programs. Approximately 27% of vocational rehabilitation clients are 19 years of age or younger; 35% of the active clients are between 20 and 30 years old; 35% of whom are between the ages of 31 and 50; 3% are 55 or older. Yet, only a fraction of the demand for training is currently being met, a demand that will only grow as handicapped youth who are part of the "baby boom" leave high school and seek employment.

Finally, in 1984 the New York State Legislature enacted Employment Preparation Education State aid for adult literacy programs. As a result, the number of disadvantaged and undereducated out-of-school youth and adults demanding occupational training as they complete adult basic education, English as a second language, and high school equivalency programs is expected to double to nearly 200,000 by 1987 and to continue growing. This is nearly equal to the total number of adults currently enrolled in all types of non-degree occupational programs. Providing employment skills to structurally unemployed adults and to undereducated and disadvantaged adults who have just received the basic education they need to enter occupational training is a central role that training programs can play in contributing to New York's economic productivity.

New York State has been developing strategies to deal with the changes in the economy and the other factors which call for additional training and retraining. First, as a preventive strategy we have completely restructured our secondary vocational education programs. We have broadened the base of vocational education to stress transferable skills, while keeping the traditional elements of:

- hands-on learning
- connections with business, industry, and labor, and
- preparation for employment.

At the same time, vocational education has been woven into the structure of the elementary and secondary education system which will ultimately increase opportunities for students as they make career and educational decisions. The key elements that define the new directions for vocational education in New York State include:

(1) a coordinated program for students in grades 7-12 which effectively eliminates unnecessary gaps and overlaps in instruction.

(2) a modular curriculum which allows districts the flexibility to combine modules in different configurations to meet the needs of students, whether secondary or adult, and

(3) a statewide accountability system which is built on state-level proficiency examinations to determine whether or not students are acquiring the necessary skills.

Students going through the new vocational education program in New York State will be provided with broad transferable skills to enable them both to advance within and transfer among various occupations during their adult years.

Secondly, we have established an employer-specific training grant program to meet the workforce needs of business and industry and the needs of dislocated workers for employment. Through a statewide network of ten Regional Education Centers for Economic Development, the Education Department works with firms and with economic developers to design customized training programs to help firms remain, expand or come into the State.

Money used to fund such training programs comes from Vocational Education Act funds, Title III funds for dislocated workers under the Job Training Partnership Act (JTPA), Title II 8% funds under JTPA and State funds under the Employer Specific Skills Training Grant Program. In 1984, over 350 employer-specific training projects were funded, serving over 11,000 participants. During 1985, it is anticipated that more than 500 projects serving more than 15,000 workers will be mounted. Since the program was initiated in the early 1980's, it is estimated that over 5,000 jobs have been created.

Thirdly, and of particular interest to this subcommittee, New York State has also established a tuition assistance program for dislocated workers. Section 7 of the Occupational Retraining and Reemployment Act (ORRA), as amended by Chapter 780 of the Laws of 1984, provides a tuition assistance program for dislocated workers under Title III of JTPA. The Act authorizes up to $1,500 to be paid to approved training providers for each certified eligible person enrolled in a program leading to employment in designated occupational fields with favorable employment opportunities. In order to be eligible to participate in this program, training providers must be licensed or certified by the State Education Department, offer approved non-degree programs with a minimum of 320 clock hours of instruction, and provide a record of program completers and placements for two years prior to the date of application.

In order to qualify for participation in the program, each dislocated worker must be registered with the New York State Department of Labor Job Service and certified as eligible by the local Job Service Office. Applicants must be individuals who (1) have been terminated or have received notice of termination or layoff from employment and are eligible for, currently collecting, or have exhausted their entitlement to unemployment compensation, and are unlikely to return to their previous industry or occupation; (2) have been terminated from, or have received a notice of termination of, employment as a result of any permanent closure of a plant or facility; or (3) are long term unemployed and have limited opportunities for employment or reemployment in the same or a similar occupation in the area in which such individuals reside, including older individuals who have substantial barriers to employment by reason of age. The program permits those individuals participating to continue to collect unemployment compensation while participating in the training program.

Agencies eligible to apply include private sector employers, employee unions, community-based organizations, joint apprentice councils, local education agencies, boards of cooperative educational services, postsecondary institutions, licensed private schools, registered business schools, Service Delivery Area grant recipients under the Job Training Partnership Act (JTPA), and Private Industry Councils (PIC), as defined by the JTPA.

The ORRA tuition assistance program is a joint venture between the New York State Departments of Labor and Education. As indicated, the Department of Labor's Job Service certifies the dislocated worker as eligible to participate in the program. The Job Service is also responsible for letting dislocated workers know about the program. The Education Department is responsible for approving programs, for certifying agencies as eligible to participate and for making payments to the training providers. The Labor Department and the Education Department jointly determine the occupations with favorable employment opportunities. Approximately 1.9 million dollars was appropriated for the 1984-85 fiscal year for the tuition assistance program for dislocated workers under the Occupational Retraining and Reemployment Act. The program has been continued by the State Legislature at the same appropriation level for the 1985-86 fiscal year.

I have reviewed some of the factors that point to the need for worker retraining both now and in the future. I have also reviewed several different types of approaches that we are using in New York State to deal with worker retraining and structural unemployment. I believe it is clear from our experience that strong programs for worker retraining which are well-funded and which build on the strengths of existing delivery systems are the key to success in retraining workers in the future.

In regard to the legislation proposed in HR 26 and HR 1219, I will leave comments on the specific form and financing of the training account and training incentives to those more expert and qualified than I. I do, however, want to identify some criteria which I believe the approaches in these two bills must be measured against. These criteria were used in the development of New York State's ORRA tuition assistance program which has many similarities to your proposed bills.

(1) The aid provided for training should be provider neutral

All types of agencies and institutions should be eligible to compete for funds and to offer the needed training programs. These include public and private colleges, secondary schools, vocational technical centers, community based organizations, proprietary schools and businesses. A competitive, market environment makes the overall delivery system for training more responsive to needs of students and provides the most flexibility and the greatest number of opportunities for students. In addition, using existing providers builds on their program and technical capacity and links workers retraining to other programs such as counseling, basic skills instruction, and computer literacy training.

(2) There must be quality control measures built into the program

The results of both the General Accounting Office's study of proprietary schools and a study conducted in New York State of tuition assistance program funds at private business schools indicated that problems can develop when aid programs are operated in a market environment. These problems include failure to enforce admission standards, poor quality instruction and equipment, and poor rates of student completion. Any worker retraining aid legislation must ensure that quality control mechanisms are put into place and that the state education agency has responsibility for assessing the quality of training programs in which displaced workers can be enrolled. State education agencies have traditionally approved programs and enforced quality standards for those programs eligible for Pell grants, guaranteed student loans and veteran's benefits. Unless we build on this capacity, we would be faced with instances where those workers most in need of retraining become frustrated because they are not properly matched with programs or are enrolled in poor quality programs.

(3) The training must be targeted on areas of labor market need

A related issue to quality control is the relationship of the training program to labor market needs. Workers must not be retrained for jobs that don't exist. However, it is very difficult to predict what the future needs of the workforce will be because the economy is changing so rapidly. Part of any worker retraining legislation must include the identification of occupations with favorable employment opportunity, and this information must be updated on a regular basis. Under the ORRA tuition assistance program, we developed a systematic methodology for projecting those occupations with favorable employment opportunities in the State. Considerable work needs to be placed into developing labor market projections using the combined efforts of the Bureau of

Labor Statistics, the State Labor Department and the State Occupational Information Coordinating Committee. In addition, the area of entrepreneurship must be included in any review of occupations with favorable employment opportunities. As I have indicated, small businesses are an important aspect of our economy and new small businesses are responsible for a large proportion of the nation's job creation. Workers must be given a chance to train to become successful entrepreneurs.

In closing, there is extensive documentation of factors influencing the need for worker retraining. These include shifts in the economy, the emergence of entrepreneurs as a significant part of the economy, increases in the number of women, minorities and the disabled in the workforce and the impact of technology on jobs. Strategies to address the needs of workers must ensure that high quality programs exist which provide workers with relevant up-to-date skills in jobs which are in demand. States have a vital role in ensuring program quality and using the capacity of educational institutions to provide needed training. I thank you for the opportunity to testify on these important issues.

Mr. Martinez. Thank you, Mr. Kadamus.

You said something in the last part of your testimony about making the use of the moneys as flexible as they could in consideration of all those educational and retraining programs that you stated. The Department of Labor now certifies the broad spectrum of what programs are certified that the money could be used for.

Do you have problems with their broad list of educational programs.

Mr. Kadamus. I think what we are suggesting is that State education agencies in terms of the history of tuition assistance type programs for students have a long history in assessing program quality. For example, under the Pell Grant Program, under the veterans approving agency program, the veterans program, in our State under the Job Training Partnership Act Program, the State education agency under title III plays a roll in approving the programs for dislocated workers so that they can use the so-called vouchers that they have, the $1,500 that they have for voucher, to go to a retraining program.

I think it is a mistake to simply think you can do this from the Federal level or to think that you can do this through the Secretary of Labor or to think you can do this through national accrediting commissions. I believe that there needs to be some—the quality control needs to be more based with the agencies in the State governments that deal with the quality of these educational institutions on an ongoing basis.

Mr. Martinez. So, what you are saying is there should be some agency somewhere that approves the training programs?

Mr. Kadamus. Yes, I am.

Mr. Martinez. But you are saying at a Federal level it is too far removed from the local knowledge to really be in a position to determine what——

Mr. Kadamus. That is correct.

Mr. Martinez. All right, I understand that.

You mentioned—I am not sure which one of you mentioned—the labor market need. Do we have someplace—and I thought I saw somewhere, and I can't remember the publication—that the Labor Department does have enough statistics and projections of those statistics to what jobs will be, what kinds of jobs will be available in the future? Do you know of some clearinghouse or some agency that does provide on an ongoing basis determinations of what the job needs will be into the future?

Mr. Kadamus. The Bureau of Labor Statistics certainly has that role. The problem, I think, comes when you begin to take that national data or statewide data and begin to break it down by county or even economic development region. In our State, the manufacturing survey, for example, is based on 3,000 firms. That means that in some of our smaller counties they are projecting the needs for those counties based on a survey of one or two manufacturing firms. If one goes out of business, as Congressman Boehlert talked about in Cortland County, it throws off all the labor market needs. So, there needs to be certainly more work done in terms of getting more specific projections of labor market needs.

It is our view, though, in terms of our tuition assistance program for dislocated workers, we only let those workers pursue occupations in fields in which we have determined through a methodology at the State level have favorable employment opportunities.

Mr. **Martinez**. So then you can at a State level determine what those——

Mr. **Kadamus**. Right. It had to be statewide. We could not break it down below a statewide level and still get reliable statistics.

Mr. **Martinez**. Do you think that it should be broken down to a lower level? Let's say countywide or——

Mr. **Kadamus**. I believe that there needs to be much more attention to looking at labor market data on a sub-State level, yes.

Ms. **Eurich**. I think we still don't have a good central concern for assessing needs. It's the problem of projections. If you take the Job Partnership Training Act, the Private Industry Councils have done very well and played a real role, I think, in influencing the kinds of training programs people go into. But it's a quick payoff, because they are rewarded for giving people short training programs and getting them placed immediately. That compounds the problem 5 years down the road, when that quick job has disappeared again. So, someone needs to be looking at the projections in a technological era on a larger basis.

Many of these companies are national and international. So, the subsections of States and counties cease to be quite as meaningful as they used to be in assessing needs.

Mr. **Kadamus**. I would agree with that assessment, particularly when you take a look at the changes in the job market, the rapid changes in the job market and the need to really have more investment in terms of determining labor market needs.

Mr. **Martinez**. Well, I would agree with you that it is a quick fix, one of the reasons it is a quick fix is because of the desperate situation of the numbers of people who were losing jobs. Now, there's another aspect of it that I find fault with, and that is that it is really only serving about 3 percent of the total need. So, there isn't the expenditure of moneys there.

I see where your criticism comes in in regard to the quick fix, but I would disagree that we can eliminate it. Right now there is an immediate need for that.

Ms. **Eurich**. Absolutely. No, you don't eliminate it. What you need to do, though, is look ahead to the other needs in conjunction with it. Of course you want to place people rapidly. But if that's the sum total of the program, we are missing the larger problem of continual training and more basic training so people can deal with the kind of knowledge, intensive problems we have got now.

Mr. **Martinez**. I agree with you that there is a need and a tremendous need for us to concentrate on basic skills and basic education so that they can be flexible enough to move into different training opportunities. But one of the things that keeps reoccurring in my mind as I look at my district and I look at the people that are without employment and I look at people that have been laid off from jobs because of plant closures, and I see that their training was job specific. They were in that job a long time.

I will give you the best example I can, Bethlehem Steel. I knew a lot of people, because it is in my district, that were laid off from there that were in the 55, 56, or 58 age group, close to retirement. They looked at going out and getting retrained for another job. It just scared the devil out of them. They said, hey, we'll do whatever we can, odd jobs, anything until retirement. Maybe they were scared that they couldn't be retrained. Some of them, I imagine, just became very frustrated. They got to a point where they were not really able to learn anything else. You take them and put them on a job. Especially when they have to compete with somebody 30- or 35-years old, or even 20- or 25-years old. These younger individuals are more flexible. Their minds are more open. They still have the capability of applying themselves to studying something that they need to learn.

How do you deal with all of those people? The job trend today is high tech oriented and many of these people are never going to become acquainted with this orientation. I will give you another particular personal insight. I had a lady working in my district office. We brought computers in. It just scared the devil out of her. She tried. She made an effort. But one year later, she had not learned to operate that computer. She just couldn't handle it. Her mind was too set. Her habits were too set at her age. She just couldn't do it.

There are a lot of people out there like that. How do you deal with that problem?

Ms. EURICH. One way is to ask—and they are all competing—is to ask the manufacturers of that computer themselves to deal with it. They would be very glad to.

Mr. MARTINEZ. We had the computer specialist come in and spend hours. We tried to get her over her fears. She just couldn't get over the hurdle.

Ms. EURICH. Well, there will always, I suppose, be some in our older age group. But, of course, the children are growing up with it and not feeling this fear. So, it is a problem of differentiating between the kinds of people—take the woman or the older person you mentioned—displaced. We know that quite a few jobs will be created in sales. We know quite a few jobs are being created in service industries of a variety. They are not all in information lines or knowledge intensive. But what we do need is some kind of a view of just where these problems are and what we have already got to bring to them. That's the thing I think we are missing when we do individual bills that approach the problem.

Mr. MARTINEZ. In your concept of what we should do to correct the problems that exist out there, do you take into consideration aptitudes of people?

Ms. EURICH. Aptitude?

Mr. MARTINEZ. Aptitudes of people.

Ms. EURICH. Sure.

Mr. MARTINEZ. Capacity of people.

Ms. EURICH. Yes.

I was talking, for example, the other night with the head of a very big corporation in this country about what he thought should be done. I was thinking today you should ask him about tax incentives for training; he is not the least bit interested.

But the point is, I said, if you're a nationwide company and an international one, wouldn't you offer training courses in your different operative units that unemployed people could come and take? We are talking about now specific job type training courses, or some of them, of course, are remedial reading and writing. Corporations are all teaching this. You could offer those courses. It wouldn't cost you much of anything. Do it two or three times. Or transfer those courses onto packaged courses, that sort of learning that people could be helped to do in a small group. Sure, he said, there'd be no problem in a thing like that. All the big companies would be glad to let that go for a flyer on one to two rounds and see what happens.

So, when I say bring the resources we have already got to bear, they are doing a good job in a lot of those corporate classrooms. But, as my friend said, the little companies don't have that. It's only 10 percent of the workforce that gets anyplace near those good corporate training programs. But if those programs could be transported to all those other workers in various ways, it could help. And it gives us a library of courses and training programs to draw on.

Mr. **Martinez**. Very good.

Mr. **Kadamus**. We found in our work with small business that—we have offered a combination of what we call transferrable skills and job-specific skills. I don't think you can just stay only with the broad-base skills.

But particularly I wanted to note, for instance, we have had in our State, to deal with the secondary vocational education system, which I think is a critical need, in terms of giving students a combination of those skills such as problem solving and decision making, management of resources, understanding the workplace, being computer literate, in addition to job skills. I think our vocational programs far too long in this country have been more job-specific, and unless we change those programs, we will have another generation of dislocated workers.

That is the long-term preventative work that we need to do right now in terms of vocational education in this country.

Mr. **Martinez**. Would both of you be available for written questions? As some of the people read this transcript of this hearing, they will have questions.

Mr. **Kadamus**. Certainly.

Ms. **Eurich**. Certainly.

Mr. **Martinez**. Thank you very much for joining us today and giving us the benefit of your experience.

We are adjourned.

[Whereupon, at 12:05 p.m., the subcommittee was adjourned, subject to the call of the chair.]

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